

# NEGOTIATIONS ON IRAN'S NUCLEAR PROGRAM

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## HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

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## NEGOTIATIONS ON IRAN'S NUCLEAR PROGRAM

TUESDAY, FEBRUARY 4, 2014

U.S. SENATE.  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10:02 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Robert Menendez (chairman of the committee) presiding.

Present: Senators Menendez, Shaheen, Coons, Durbin, Murphy, Kaine, Markey, Corker, Rubio, Flake, and Paul.

### OPENING STATEMENT OF HON. ROBERT MENENDEZ, U.S. SENATOR FROM NEW JERSEY

The CHAIRMAN. This hearing will come to order.

Let me begin by welcoming our panelists. Today, we have two panels. On the first panel is Wendy Sherman, Under Secretary of State for Political Affairs. Under Secretary Sherman is joined this morning by David Cohen, the Under Secretary of Treasury for Terrorism and Financing.

And we thank you both for being here.

Let me say, at the outset, that I support the administration's diplomatic efforts. I have always supported a two-track policy of diplomacy and sanctions. At the same time, I am convinced that we should only relieve pressure on Iran in exchange for verifiable concessions that will fundamentally dismantle Iran's nuclear program—not by a month or two, but by a year or more—and that it be done in such a way that alarm bells will sound from Vienna to Washington, should Iran restart its program anytime in the next 20 to 30 years. Any deal the administration reaches with Iran must be verifiable, effective, and prevent Iran from ever developing even one nuclear weapon. In my view, based on the parameters described in the Joint Plan of Action and Iranian comments in the days that have followed, I am very concerned about Iran's willingness to reach such an agreement.

This is not a nothing-ventured-nothing-gained enterprise. We have placed our incredibly effective international sanctions regime on the line without clearly defining the parameters of what we expect in a final agreement. As Ali Akbar Salehi, the head of Iran's nuclear agency, said last week on Iranian state television about the agreement, "The iceberg of sanctions is melting while our centrifuges are also still working. This is our greatest achievement." Well, frankly, it is my greatest fear.

Salehi may be correct; the iceberg of sanctions may melt before we have an agreement in place. That may, in fact, be the Iranian endgame. They understand that once the international community ceases backing sanctions, that they will have won, regardless of whether or not we have a deal.

At the end of the day, any final deal must require Iran to dismantle large portions of its nuclear infrastructure. Any final deal must address Iran's advanced centrifuge research-and-development activities that allow to more quickly and more efficiently enrich uranium. It must eliminate the vast majority of Iran's 20,000 centrifuges, close the Fordow facility, and stop the heavy water reactor at Arak from ever coming online. And it must address Iran's weaponization activities at Parchin and possibly elsewhere, something not directly dealt with by the Joint Plan of Action.

Experts, including David Albright, who will be on our second panel, have said that for Iran to move from an interim to a final agreement, it would have to close the Fordow facility and remove between 15- and 16,000 of its 20,000 centrifuges. And, even then, we are looking at potential breakout time of between 6 and 8 months, depending on whether Iran has access to uranium enriched to just 3.5 percent or access to 20-reconverted-percent enriched uranium. A final agreement should move back the timeline for breakout to beyond a year or more and insist on a long-term, 20-year-plus, regime of monitoring and verification.

Now, in the light of that testimony that we are going to hear today, President Rouhani, in an interview with Fareed Zakaria on CNN, said, in response to the question, "So, there will be no destruction of centrifuges, of existing centrifuges?" President Rouhani's answer was, "No, no, not at all." So, that causes concern for those of us who are concerned about what this final agreement looks like.

A final agreement that mothballs Iran's infrastructure, or fundamentally preserves their ability to easily break out, is not a final agreement I can support. If all we achieve is the essence of an early warning system of Iran's future breakout ability, and the sanctions regime has collapsed, and the only options for this or any future President will be to accept a nuclear-armed Iran or a military option, in my view that is not in the national security interests of the United States. I know that is not anyone's goal or plan, but I also think we need to guard against wanting a deal so much that we concede more than we gain.

At the end of the day, Iran can no longer be a nuclear-weapons-threshold state. I have made my position quite clear, and will continue to do so.

I have specific questions, for all of our panelists, that I hope you will be able to answer to help assure us that this is, in fact, ultimately, if achievable at all, the type of deal that we can all embrace.

With that, let me recognize the distinguished ranking Republican member, Senator Corker.

**OPENING STATEMENT OF HON. BOB CORKER,  
U.S. SENATOR FROM TENNESSEE**

Senator CORKER. Well, thank you, Mr. Chairman. And thank you for those opening comments and your leadership on this issue for many years. I think the efforts that you have put forth in the past with Senator Kirk and others, candidly, helped put us in the place that we are today. And so, I applaud you for that, and appreciate the position you have taken.

I welcome our administration witnesses. And after reading, Mr. Chairman, the testimony by the witnesses that are going to come on the second panel, in many ways I wish we had that testimony first so that we could then talk with the administration about what neutral observers are saying about the interim deal that has been proposed.

I want to also say—and I—but, I thank you for your service. David, I think you have done a good job at carrying out the sanctions that have been put in place. I do want to talk to you a little bit about the Turkish issue and our knowledge of that, possibly, and why we allowed that to occur, and is the same thing getting ready to happen in Russia with our acquiescence. I do not know, we will find out, I guess, during this hearing.

And, Ms. Sherman, again, I thank you for your efforts and want to say that, generally speaking, I have been disappointed in the rhetoric from the administration about Congress' involvement. On one hand, I think that you would readily admit that the position that Congress has taken through the years has helped you be in the place that you are. But, somehow, because Congress wants to ensure that we end up with a proper end state—been a lot of unfortunate things that have been said. And I, too, as the chairman mentioned, support very much the administration's effort to ensure that Iran does not have nuclear weapons and we are able to resolve this in a peaceful manner. Very much support that. I just think all of us have legitimate—many of us have legitimate concerns about what has happened.

As a matter of fact, I just want to say, relative to Congress, I think all of us would like to work cooperatively with the administration. And, in many ways, I think what has happened is, the rhetoric around the sanctions piece has actually sort of become a red herring; it has sort of been a place where the administration can say, "Well, sanctions will end up keeping this deal from happening." Congress can keep saying, "Oh, we are trying to do something about it." And I think it avoids the topic of you, candidly, clearly laying out to us what the end state is that you are trying to negotiate. And I hope today you will clearly—I just got your testimony; I have not seen it—just came in 5 minutes ago—I hope that you will clearly lay out what the end state is, because I think that is what so many of us are concerned about, that this interim deal becomes the permanent deal.

You know, if you look at Iran, they are savvy, and they have a lot of people that are educated in our country. They understand us, in many ways better than we understand them. And if you look at what they are doing and what they have done in the past is, they become—they perfect something and then they pause. They perfect something and then they pause. And so, what we have right now

is, they have perfected—no question—the centrifuge capabilities. I think people would say that if they want to be a nuclear state, they can be that very quickly. And so, we have this pause, where we have an interim agreement that does not address all the other areas that they have the ability to perfect over this next year. Administration officials are already saying, “This is not going to happen in 6 months, this is probably going to take much longer.” In your own agreement—I know Carl Levin tried to limit it to 6 months in some meetings that we had privately at the White House. But, no, we end up with a 1-year agreement.

So, basically, we have an agreement that allows them—they stop in an area that they have already perfected—that allows them to continue on in other areas to be able to deliver nuclear weapons that is not even addressed by this interim deal. So, you can understand there is a lot of concern.

So, I hope today you will lay out clearly what the administration will accept as the end state. I hope that you will talk with us about it. And I hope that we will figure out a way to cooperatively work together. Maybe what Congress should do is pass a piece of legislation that lays out clearly the only thing we will accept at the end. Because, again, I think that there are concerns that members of the administration are negotiating toward rolling interim agreements—basically, the agreement we have now, where we have the ability to monitor, and yet they dismantle something—as actually the end state that some of the people and some within the administration would wish to achieve. So, I hope you are clear today.

I thank the chairman for having this hearing. I appreciate him letting me talk a little bit about this on the front end. And I look forward to both testimony and questions, and thank you both for your service.

The CHAIRMAN. Thank you, Senator Corker.

We will start off with Secretary Sherman—your full statements will be included in the record, without objection. We would ask you to summarize it in 5 or so minutes so that we can enter into a dialogue with you.

And, Secretary Sherman, you are recognized.

**STATEMENT OF HON. WENDY SHERMAN, UNDER SECRETARY FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Ms. SHERMAN. Thank you. Thank you, Chairman Menendez, Ranking Member Corker, distinguished members of the committee.

And I would say, to both of you, we all have concerns, and I very much appreciate this dialogue and our continued work together on this most serious issue. I provide the opportunity to provide you, today, with an update on the P5+1 and the European Union’s negotiations with Iran, which, as you know, are coordinated by the High Representative of the European Union. I also look forward to discussing where we are on other important parts of our Iran policy.

I come here confident that we, as you both said, share the same goal with regard to Iran, a goal that the President reaffirmed just last week: to prevent Iran from obtaining a nuclear weapon. And, thanks to a combination of what I believe is tough diplomacy and



the most comprehensive targeted sanctions regime ever imposed on a country, with enormous leadership here on Capitol Hill, I am certain that we are closer today to that goal than we were just a few weeks ago. We are not at that goal, but we have taken a first step toward it.

Over the next few minutes, I hope to explain why that is, as well as where we will be heading in the coming months.

On November 24, 2013, we and our partners agreed with Iran on a Joint Plan of Action. This was an important first step in our efforts to resolve the international community's concerns with Iran's nuclear program.

On January 20, the Joint Plan went into effect. As the President noted, the implementation of the Joint Plan marked the first time in a decade that Iran agreed to specific actions that halt progress on its nuclear program and roll it back in key respects. Indeed, the Joint Plan was explicitly designed this way to create space for further negotiations over a long-term comprehensive solution.

Specifically, the International Atomic Energy Agency verified, on January 20, that, among other things, Iran stopped producing near-20-percent enriched uranium; disabled the configuration of the centrifuge cascades Iran has been using to produce it; began diluting its existing stockpile of near-20-percent enriched uranium; continued to convert near-20-percent enriched uranium at a rate consistent with past practices; had not installed additional centrifuges at the Natanz or Fordow facilities; had not installed new components at the Arak facility.

Moreover, on transparency and monitoring, the IAEA stated that Iran has begun providing some of the information required by the Joint Plan, and is working with the IAEA on arrangements for increased access to its nuclear facilities.

In order to carry out its responsibilities under the Joint Plan, the IAEA will roughly double the size of its inspection team and install additional monitoring equipment. The size of the team and the access afforded under the Joint Plan mean the international community's insight into Iran's nuclear program will be significantly enhanced.

This was an important first step. And over the next 6 months, Iran has committed itself to further actions that will provide much more timely warning of a breakout of Iran's declared enrichment facilities. They also add new checks against the diversion of equipment and material for any potential covert enrichment program.

You have rightfully asked why we should trust Iran to live up to these commitments. As the President said, these negotiations do not rely on trust. Any long-term deal we agree to must be based on verifiable action that convinces us and the international community that Iran is not building a nuclear bomb. As my colleague, Under Secretary Cohen, will further outline in his testimony, the United States and the EU have also taken a series of actions to implement the targeted, limited, and temporary sanctions relief we committed to as part of the Joint Plan.

But, let me be clear. The Joint Plan of Action represents merely the first step of the comprehensive solution we seek to reach, and we seek to reach it within a 6-month timeframe.

In 2 weeks, the P5+1 political directors and the EU High Representative and her Deputy will meet with Iran in Vienna to begin discussions on that comprehensive solution. Our goal is to reach a mutually agreed long-term comprehensive solution that would ensure Iran's program will be exclusively peaceful. This comprehensive solution will build on the initial steps we have already begun to take.

Ultimately, the comprehensive solution would be one under which we would verifiably be assured that Iran's nuclear program is peaceful and that Iran will not acquire a nuclear weapon.

So, what would a solution look like?—as you asked, Senator Corker. Well, as the President said, we know that Iran does not need to have an underground fortified enrichment facility like Fordow in order to have a peaceful nuclear program. They do not need a heavy water reactor at Arak in order to have a peaceful nuclear program.

The JPOA also lays out basic elements of the comprehensive solution—if I may take another minute to finish. Thank you, Mr. Chairman.

Among other elements, the final step of a comprehensive solution would have a specified quite-long-term duration to be agreed upon, and it would reflect the rights and obligations of parties to the Non-Proliferation Treaty and IAEA Safeguards Agreement. Under the terms of the Joint Plan, Iran has also committed itself to a number of steps before we finalize a comprehensive solution, including, among other things, addressing the relevant U.N. Security Council Resolutions, with a view toward bringing the Security Council's consideration of this matter to a satisfactory conclusion. Iran has committed to implement agreed transparency measures and enhanced monitoring. The Joint Commission, set up between Iran, the P5+1, and the EU to oversee the implementation, will also serve as a forum for discussion to facilitate the IAEA's resolution of past and present issues of concern, which all parties understand means the possible military dimensions of Iran's nuclear program.

Indeed, just this weekend, on the margins of the Munich Security Conference, Secretary Kerry reiterated to Foreign Minister Zarif the importance of Iran abiding by its commitments under the Joint Plan, and Iran and the P5+1 countries must begin the comprehensive negotiations with good faith. He also made clear that the United States will continue to enforce existing sanctions.

One final issue to keep in mind with regard to the comprehensive solution, is that under the terms of the Joint Plan, we have agreed with Iran that the comprehensive solution will be part of an integrated whole, where nothing is agreed until everything is agreed. What is also important to understand is that we remain in control over whether to accept the terms of a final deal, or not. We have made it clear to Iran that, if it fails to live up to its commitments, or if we are unable to reach agreement on a comprehensive solution, we would ask Congress to ramp up new sanctions immediately.

But, moving forward on new sanctions now, as you know, we believe would derail the promising diplomacy I have just outlined, alienate us from our allies, and risk unraveling the international

cohesion that has proven so essential to ensuring that our sanctions have the intended effect.

Before I conclude, let me briefly note that our focus on Iran's nuclear program has not deterred us from holding Iran accountable for its human rights abuses, support for terrorism, and interference across the region. My written testimony includes further explanation of what we are doing on these issues.

And I also want to emphasize that we remain committed to bringing Robert Levinson, Saeed Abedini, and Amir Hekmati home. This was another set of concerns that Secretary Kerry raised this weekend directly with Foreign Minister Zarif in Munich. I have also personally raised these cases with Iran, as did the President in his phone call with President Rouhani in September. We will continue to do so and use every avenue at our disposal until these men are back home with their families where they belong.

In sum and to finalize my statement, Mr. Chairman and members, the P5+1's negotiations with Iran underscore that it is possible not only to make progress on the nuclear issue, but with Iran. We are not blind, however, to the more than 30 years of difficult history between the United States and Iran, or Iran's past actions and past behavior, as well as its current behavior. But, it is crucial that we give diplomacy a chance to succeed.

If Iran lives up to its commitments, then the world will become a safer place. If it does not, then we retain all options to ensure that Iran can never, and will never, obtain a nuclear weapon. The coming months will be a test of Iran's intentions and of the possibility of a peaceful resolution to the crisis. We look forward to continuing to work closely with the Congress to ensure that U.S. national security interests are advanced.

Thank you.

[The prepared statement of Ms. Sherman follows:]

#### PREPARED STATEMENT OF UNDER SECRETARY WENDY SHERMAN

Good morning, Chairman Menendez, Ranking Member Corker, distinguished members of the committee. I appreciate this opportunity to provide you with an update on the P5+1's negotiations with Iran over its nuclear program. I come here confident that we share the same goal with regard to Iran: to prevent Iran from obtaining a nuclear weapon. Thanks to a combination of tough diplomacy and the most comprehensive targeted sanctions regime ever imposed on a country, I am certain that we are closer today to that goal than we were just a few weeks ago.

Over the next few minutes I hope to explain why that is, as well as where we believe we will be heading in the coming months. I will also update you on efforts that have not been part of the P5+1 negotiations but are similarly important: our efforts to hold Iran accountable for its human rights abuses, support for terrorism, and destabilizing activities abroad.

#### NEGOTIATION UPDATE

We have long recognized that the Iranian nuclear program constitutes one of the most serious threats to U.S. national security and our interests in the Middle East. An Iranian regime armed with nuclear weapons would destabilize the Middle East, put our allies and partners in the region at risk, and undermine the global non-proliferation regime. Fully aware of the seriousness of this challenge, the P5+1 (China, France, Russia, the U.K., United States, and Germany, coordinated by EU High Representative Catherine Ashton) has engaged over the past months in sustained negotiations with Iran over its nuclear program. On November 24, 2013, the P5+1 took an important first step as part of that diplomatic push by agreeing with Iran on a Joint Plan of Action (JPOA). This joint plan is sequenced over the next 6 months to explicitly block near-term Iranian pathways to a nuclear weapon, while creating space for further negotiations to reach a long-term comprehensive solution.

A little more than 2 weeks ago, on January 20, 2014, the JPOA went into effect. As the President noted, the implementation of the JPOA marked the first time in a decade that Iran agreed to specific actions that halt progress on its nuclear program and roll it back in key respects. Specifically, the International Atomic Energy Agency (IAEA) verified on January 20 that, among other things, Iran: has stopped producing near-20 percent enriched uranium (UF<sub>6</sub>); disabled the configuration of the centrifuge cascades that Iran has been using to produce it; begun diluting its existing stockpile of near-20 percent enriched uranium and continued to convert near-20 percent enriched uranium to oxide for fuel plates at a rate consistent with past practices so that it will have eliminated its entire near-20 percent enriched uranium stockpile at the end of 6 months; had stopped installing additional centrifuges at the Natanz or Fordow facilities; and had not installed additional reactor components at the Arak facility. Moreover, on transparency and monitoring, the IAEA stated that Iran has begun providing some of the information required by the JPOA and is working with the IAEA on arrangements for increased access to its nuclear facilities. In order to carry out its responsibilities under the JPOA, the IAEA will roughly double the size of its inspection team and install additional monitoring equipment. The size of the team and the access afforded under the JPOA mean the international community's insight into Iran's nuclear program will be significantly enhanced.

This was an important first step, and over the next 6 months, Iran has committed itself to further actions that will provide much more timely warning of a breakout at Iran's declared enrichment facilities and will add new checks against the diversion of equipment and material for any potential covert enrichment program. Some have rightfully asked why we should trust Iran to live up to these commitments. As the President said in his State of the Union speech, these negotiations do not rely on trust; any long-term deal we agree to must be based on verifiable actions and constraints that convince us and the international community that Iran is not building a nuclear bomb.

As my colleague Under Secretary Cohen will further outline in his testimony, the United States and the EU also took a series of actions on January 20 to implement the limited, temporary, and reversible sanctions relief we committed to as part of the JPOA, including: the necessary steps to pause efforts to further reduce Iranian crude oil exports, allowing the six current customers of Iranian oil to maintain their purchases at current reduced levels for the duration of the JPOA; and issuing the necessary waivers to suspend for the duration of the JPOA sanctions on non-U.S. persons engaged in transactions related to the export of petrochemical products from Iran, certain trade in gold and precious metals to or from Iran, and the provision of goods and services to Iran's automotive sector. In addition, the EU increased the size of financial transfers to and from Iran that are permissible by the EU without prior authorization.

As part of the JPOA, the administration is working with its partners and Iran to establish a mechanism to further facilitate payments for humanitarian transactions and to enable Iran to make payments for medical expenses—which are already explicitly exempt from congressional sanctions—as well as, university tuition payments for Iranian students studying abroad, and its U.N. obligations. The United States has also committed to license transactions for spare parts, inspections, and associated services in Iran necessary for safety of flight for Iran Air and nondesignated commercial Iranian airlines.

Finally, on February 1, the U.S. Government facilitated the repatriation of \$550 million in Iranian funds restricted overseas. This transaction was part of the agreement to allow Iran to access—in monthly installments through July 20—\$4.2 billion of its own restricted funds contingent on Iran fulfilling its commitments under the JPOA.

Before moving on to what we expect in our next round of negotiations with Iran, I would like to make a couple of points. First, a number of observers have criticized the JPOA, arguing that we should have negotiated a comprehensive solution with Iran over its nuclear program from the outset. If we believed we could have negotiated a comprehensive solution from the outset in a short period of time, we would have done so. But it became apparent that such a negotiation was going to take some time, and we wanted to make sure that during the intervening period Iran did not move forward on the most worrisome parts of its nuclear program. Had we not agreed on the JPOA, Iran's stockpile of near-20 percent enriched uranium would have continued to grow, Iran would have continued to install faster and more advanced centrifuges, and Iran would have made progress on the Arak reactor. The JPOA has instead committed Iran to stop the advance of its program, roll it back in some key areas, and give us time and space to negotiate a long-term comprehensive solution that will address our concerns in an enduring manner.

Second, some have argued that the JPOA will weaken the unprecedented sanctions regime we have worked with Congress to build, and that it will give the Iranian economy enough breathing room so that it does not feel pressure to negotiate a comprehensive solution. We disagree. The core sanctions architecture remains firmly in place and the relief that Iran was granted through the JPOA was explicitly and intentionally tailored to maintain pressure and our ability to negotiate the comprehensive solution. Our analysis indicates that the JPOA appears unlikely to provide Iran any significant economic benefits, especially any that could resolve the Iranian economy's many problems. While Iran's currency appreciated after Iranian President Rouhani's election and just after the JPOA was announced, it now stands at about the same level as where it was at the time the JPOA was rolled out, perhaps reflecting a more sober assessment by the market of the limited relief it will provide. Iran's oil exports will still be constrained at levels that are down over 60 percent since 2011. This means that Iran will continue to lose \$4–5 billion per month while the JPOA is in effect compared to 2011. The \$4.2 billion being repatriated over the 6 months is a modest fraction of Iran's \$100 billion in foreign exchange holdings, the vast majority of which are restricted or inaccessible. And the 6-month time frame will make it difficult for any long-term business to take place even in the sectors for which we have provided relief.

There is no doubt that companies are keeping an eye on Iran. We have always said Iran and its people hold vast potential. But we—the State Department and Treasury Department—have made, are making, and will continue to make, very clear to countries and companies around the world that we will vigorously enforce the vast set of sanctions that remain in place. Indeed, on December 12, 2013, we sanctioned a number of entities and individuals involved in the proliferation of WMD-related material and attempts to evade U.S. sanctions against Iran. We will remain vigilant. It is this vigilance that will keep the various trade delegations that we have seen going to Iran aspirational rather than practical.

#### COMPREHENSIVE SOLUTION

Later this month, the P5+1 Political Directors will meet with Iran to begin discussions regarding a comprehensive solution on Iran's nuclear program. As stated in the JPOA, our goal for these negotiations is to reach a mutually agreed long-term comprehensive solution that would ensure Iran's nuclear program will be exclusively peaceful. Let me be clear, the JPOA represents merely the first step of the comprehensive solution we seek to reach. This comprehensive solution would build on the initial steps we have already begun to take. Ultimately, the comprehensive solution would be one under which we would be verifiably assured that Iran's nuclear program is peaceful and that Iran will not acquire a nuclear weapon.

As to specifics of what we envision, the President and Secretary have recently laid down certain aspects that are indicative of what we envision. As the President said at the Saban Forum on December 7, 2013, we know that Iran does not need to have an underground, fortified enrichment facility like Fordow in order to have a peaceful nuclear program. They do not need a heavy-water reactor at Arak in order to have a peaceful nuclear program.

The JPOA also lays out basic elements of the comprehensive solution. Among other elements, the final step of a comprehensive solution would have a specified long-term duration to be agreed upon and reflect the rights and obligations of parties to the Non-Proliferation Treaty and IAEA Safeguards Agreements. Moreover, under the terms of the JPOA, Iran has committed itself to address the U.N. Security Council resolutions with a view toward bringing to a satisfactory conclusion the U.N. Security Council's consideration of this matter. In addition, Iran has committed to implement agreed transparency measures and enhanced monitoring. The Joint Commission set up between Iran, the P5+1 and the EU to oversee the implementation of the JPOA will also serve as a forum for discussion to facilitate the IAEA's resolution of "past and present issues of concern"—which all parties understand means the possible military dimensions of Iran's nuclear program.

One final issue to keep in mind with regard to the comprehensive solution is that, under the terms of the JPOA, we have agreed with Iran that the comprehensive solution will be part of an integrated whole where nothing is agreed until everything is agreed. What is also important to understand is that we remain in control over whether to accept the terms of a final deal or not. We have made it clear to Iran that, if it fails to live up to its commitments, or if we are unable to reach agreement on a comprehensive solution, we would ask the Congress to ramp up new sanctions. In that situation, we would be well-positioned to maximize the impact of any new sanctions because following a strong diplomatic effort we would likely have the sup-

port of the international community, which is essential for any increased pressure to work.

In comparison, moving forward on new sanctions now would derail the promising diplomacy I have just outlined, alienate us from our allies, and risk unraveling the international cohesion that has proven so essential to ensuring that our sanctions have the intended effect.

#### TERRORISM, HUMAN RIGHTS AND REGIONAL MEDDLING

Even as we pursue negotiations of a comprehensive solution on Iran's nuclear program, we will not relax our efforts to hold Iran accountable for its human rights violations and abuses, support for terrorism, and interference across the region.

We remain deeply concerned with Iran's destabilizing activities across the region, which threaten the security of partners such as Israel and our Gulf allies. Iran continues to fund, arm, train, and send troops to fight alongside the Assad regime in Syria, fueling sectarian violence and extremism. Iran also continues to arm and train militants in Lebanon, Gaza, Iraq, Afghanistan, Yemen, and Bahrain. And Iran and Lebanese Hezbollah continue to pursue terrorist activity around the globe.

We are committed to working with our allies and partners to counter this destabilizing behavior. Due in part to our efforts, we have seen an encouraging trend in the past 2 years of increasingly firm responses from governments around the world to stand up to Iran's and Lebanese Hezbollah's aggressive actions. Much of this cooperation remains sensitive and must be reserved for a classified setting, but let me cite a few examples for you.

Together with our allies and partners, we have repeatedly intercepted Iranian shipments of weapons to militants in Yemen, Afghanistan, and Gaza. Just over 1 month ago, Bahraini authorities seized a boat filled with Iranian explosives and arrested a dozen militants meant to receive the smuggled cargo.

We have assisted the Governments of Georgia, India, Thailand, Kenya, Nigeria, and Bulgaria in investigating Iranian and Lebanese Hezbollah-directed terrorist attacks and plots. Wherever possible, we have pushed these countries and their neighbors to hold Iran and Hezbollah accountable for these egregious acts. Our diplomatic efforts resulted in the EU's 2013 designation of Hezbollah's military wing as a terrorist organization and the Gulf Cooperation Council's blacklisting of Hezbollah. And here at home, in May 2013, Mansour Arbabsiar, the man recruited by the IRGC's Quds Force to assassinate the Saudi Ambassador to the United States, was sentenced to 25 years in prison.

Finally, we have expanded our own sanctions against Iran and its proxies. In February 2013, under the Iran Threat Reduction and Syria Human Rights Act, we designated 15 senior Iranian officials for involvement in illicit nuclear activities, support for terrorism, or human rights abuses. On January 23 of this year, we designated the Deputy Secretary General of the Palestinian Islamic Jihad (PIJ), Ziyad al-Nakhalah, as a Global Terrorist. Furthermore, the U.S. Government has identified the Lebanese Canadian Bank and two Lebanese exchange houses as financial institutions of primary money laundering concern, because their activities facilitated the money laundering activities of narcotics traffickers and provided support to the terrorist group Lebanese Hezbollah.

#### HUMAN RIGHTS

We also continue to hold Iran accountable for its deplorable human rights record. In her December Human Rights Day speech, National Security Advisor Susan Rice said our support for the human rights of all Iranians will continue, even as we test the potential for a diplomatic resolution to the nuclear issue. With our allies, we will continue to highlight Iran's ongoing human rights violations and abuses.

As part of this work, the United States partnered with 85 other countries to support and pass this year's U.N. General Assembly third committee resolution condemning Iran's poor human rights record. We are now working to build support for a Human Rights Council resolution to be voted on in March to extend the mandate of the U.N. Special Rapporteur on the Situation of Human Rights in Iran, and we will continue to urge the international community to press Iran to allow him to visit the country and directly observe its human rights conditions.

Every week on the Virtual Embassy Tehran Web site and in our social media, we highlight human rights violations and abuses in Iran. We were heartened by the September and October releases of more than 40 prisoners of conscience, including human rights lawyer Nasrin Sotoudeh—whom we had highlighted on the Virtual Embassy and commended publicly following her receipt of the EU Sakharov Prize in 2012. We call on Iran to release all of its political prisoners, including Green Movement leaders Mir Hossein Mousavi and Mehdi Karroubi, who are approaching

3 years under house arrest with no formal charges. We will also continue to document Iran's human rights violations and abuses in our annual Human Rights and International Religious Freedom Reports, drawing attention to the government's treatment of its people. We too hear the promises of President Rouhani to his people and we will continue to support Iranians as they call on him to fulfill these promises and to ensure Iran meets its international human rights obligations.

#### AMERICAN CITIZENS DETAINED IN IRAN

We also continue to call on Iran to release Saeed Abedini and Amir Hekmati and support our efforts to bring Robert Levinson home. We welcome Foreign Minister Zarif's comments that clemency may be possible for Mr. Abedini and Mr. Hekmati and look forward to hearing more from Iran about this option. We repeatedly have asked the Iranian Government for assistance in locating Mr. Levinson, and for Iranian authorities to permit a visit by officials of the Swiss Embassy in Tehran to determine the well-being of Mr. Hekmati and Mr. Abedini and to release them. We are aware of the transfer of Mr. Abedini to Rajai Shahr prison and have concerns about his medical condition. We have asked the Iranian authorities to address our concerns about his health and prison conditions and transfer him back to Evin.

The President raised the three cases with Iranian President Rouhani during their September 27 call. The Secretary has raised the issue directly with Iranian Foreign Minister Zarif, including just this weekend. On the sidelines of our negotiations in Geneva, I raised the three cases with Iranian officials and urged them to address our concerns. We have raised the issue with our international partners to request they raise the cases directly with Iran and we will continue to do so until they return home. They remain a top priority of the U.S. Government and we will continue to press the Iranian Government to take actions to allow them to reunite with their families.

#### CONCLUSION

In sum, our policy and approach to Iran remains multipronged, yet we seek one ultimate goal: an Iran that respects its international obligations and commitments, that respect the rights of its citizens and neighbors, and that plays a constructive role in the region. The P5+1's negotiations with Iran underscore that it is possible to begin making progress on this effort. We are not blind to the more than 30 years of difficult history between the United States and Iran or Iran's past actions, but it is important that we give diplomacy a chance to succeed. If Iran lives up to its commitments then the world will become a safer place. If it does not, then we retain all options to ensure that Iran cannot obtain a nuclear weapon. The coming months will be a test of Iranian intentions, and of the possibility for a peaceful resolution to this challenge to peace and international security.

We look forward to working closely with the Congress to advance U.S. national security interests and prevent a nuclear-armed Iran.

The CHAIRMAN. Secretary Cohen.

#### **STATEMENT OF HON. DAVID S. COHEN, UNDER SECRETARY FOR TERRORISM AND FINANCING, U.S. DEPARTMENT OF TREASURY, WASHINGTON, DC**

Mr. COHEN. Chairman Menendez, Ranking Member Corker, distinguished members of the committee, thank you for the opportunity to appear before you today to discuss the implementation of the Joint Plan of Action.

In my testimony this morning, I will address the administration's steps to deliver the limited, temporary, and reversible relief in the Joint Plan, as well as our critically important ongoing efforts to implement and enforce the vast majority of the sanctions that remain in place.

The pressure on Iran from sanctions, sanctions built through the collaborative efforts of Congress and the administration along with many of our partners in the international community, was instrumental in bringing about the Joint Plan of Action. We are committed to ensuring that we maintain this same pressure on Iran

throughout the 6-month term of the Joint Plan as our negotiators explore the possibility of a long-term comprehensive solution that verifiably ensures that Iran will not acquire a nuclear weapon.

The Joint Plan went into effect on January 20. On that day, we issued guidance that temporarily suspended sanctions on transactions related to the export of petrochemical products from Iran, the provision of goods and services to Iran's automotive sector, and certain trade in gold and other precious metals to or from Iran. In this guidance, we made clear that transactions associated with this relief must be initiated and completed entirely during the 6-month period of the Joint Plan; that is, to avoid sanctions, full performance, from contract to delivery to payment, must begin no earlier than January 20 and end no later than July 20.

We have also paused efforts for the next 6 months to reduce, further, Iran's exports of crude oil to the six jurisdictions still purchasing from Iran and began taking steps to allow Iran to access, in eight installments spread over the span of 6 months, \$4.2 billion of its own funds currently restricted in accounts overseas.

And finally, we are working to further facilitate humanitarian transactions.

Notably, all of this relief is reversible. If Iran fails to meet its commitments under the Joint Plan, we can revoke this limited sanctions relief and, at a minimum, reinstate the suspended sanctions.

Viewed in light of the depths to which Iran's economy has sunk, the approximately \$7 billion in relief offered by the Joint Plan will not materially improve Iran's economy. For the first time in 20 years, Iran will be in a recession for 2 consecutive years. It will continue to have limited or no access to almost \$100 billion in foreign exchange holdings. Its budget deficit will remain sizable. Its currency will remain significantly devalued; and its inflation rate, significantly elevated.

Over the 6-month duration of the Joint Plan, Iran's struggling economy will continue to be buffeted by sanctions, as the core sanctions architecture remains firmly in place. We are continuing to implement and enforce our oil sanctions, which have driven down Iran's oil exports by more than 60 percent over the last 2 years; our financial sanctions, which have locked up much of Iran's overseas assets; our banking sanctions, which have largely cut off the Iranian banking sector from the international financial system; our sanctions on significant investment in Iran's energy sector, which has impaired Iran's oil and gas production; and the broad trade embargo between the United States and Iran.

Because these potent sanctions remain firmly in place, Iran will continue to struggle to finance its imports, to fund its government operations, and to defend the value of its currency. In short, the continuing impact of our sanctions, and the cumulative impact of those sanctions, means that the Iranian economy will continue to massively underperform for the foreseeable future.

So, while we remain committed to providing, in good faith, all the relief agreed to under the Joint Plan, we also remain hard at work implementing and enforcing a sanctions regime of unprecedented force and scope. The reason is simple: We know that intense



sanctions pressure helped bring about the Joint Plan and, likewise, will be a critical component in the negotiations to come.

To ensure the sanctions pressure continues, we are actively engaging with foreign banks, businesses, and governmental counterparts. Secretary Lew, Secretary Kerry, and many others from the administration, have reaffirmed this point, that the sanctions relief in the Joint Plan is narrow, the sanctions that remain in place are broad, and that we intend to enforce our sanctions vigorously. As part of this effort, over the last 6 weeks I have traveled to the United Kingdom, Germany, Italy, Austria, Turkey, and the United Arab Emirates, carrying this message: Iran is not open for business.

In all of these engagements, we have made clear that we will continue to respond to Iran's efforts to evade our sanctions wherever they may occur. We will continue to detect, disrupt, and disable those facilitating Iran's nuclear and missile programs. And we will continue to target Iran's support for terrorism and its human rights abuses.

And I say to this committee and to other observers, stay tuned. We are poised to deploy our tools against anyone anywhere who violates our sanctions, just as we have always done.

Thank you.

[The prepared statement of Mr. Cohen follows:]

#### PREPARED STATEMENT OF UNDER SECRETARY DAVID S. COHEN

##### INTRODUCTION

Chairman Menendez, Ranking Member Corker, and distinguished members of the Committee, thank you for the opportunity to appear before you today to discuss the implementation of the Joint Plan of Action (JPOA).

In my testimony this morning, I will address the administration's steps to deliver the limited, temporary, and reversible relief in the JPOA, as well as our critically important ongoing efforts to implement and enforce the vast majority of the sanctions that remain in place. As this committee knows, the pressure on Iran from sanctions—sanctions built through the collaborative efforts of Congress and the administration, along with many of our partners in the international community—was instrumental in bringing about the JPOA. This administration is committed to ensuring that we maintain this same pressure on Iran throughout the 6-month term of the JPOA, as our negotiators explore the possibility of a long-term, comprehensive solution that verifiably ensures that Iran's nuclear program is peaceful and that Iran will not acquire a nuclear weapon.

##### IMPLEMENTATION OF JPOA

As my colleague, Under Secretary Sherman, describes in her testimony, the JPOA marks the first time in a decade that Iran has committed to stop the advance of its nuclear program and roll back some of its key elements. Iran has also committed to allow international inspectors significant access to its various nuclear facilities. In exchange for these steps, the P5+1 committed to limited, temporary and reversible relief that we estimate, in total, will be worth \$7 billion to Iran.

The JPOA went into effect on January 20, when the International Atomic Energy Agency (IAEA) confirmed that Iran had implemented its initial nuclear-related commitments and we took steps to fulfill our commitments under the JPOA.

In particular, on January 20, we issued guidance temporarily suspending secondary sanctions on non-U.S. persons engaged in transactions related to the export of petrochemical products from Iran, certain trade in gold and other precious metals to, or from Iran, and the provision of goods and services to Iran's automotive sector. We also issued a statement indicating a favorable licensing policy for transactions for repairs related to the safe operation of certain Iranian commercial passenger aircraft.

Along with these steps, we have made clear that in order to qualify for any of this sanctions relief the relevant transaction must be initiated and completed

entirely during the JPOA period. That is, to avoid sanctions, the contract for the sale of petrochemicals, the import of automotive parts, or the trade in precious metals must commence no earlier than January 20, and full performance—including delivery and payment—must occur no later than July 20. When the JPOA period expires, so does the relief.

Pursuant to the JPOA, we also have paused efforts for the next 6 months to reduce further Iran's exports of crude oil to the six jurisdictions still purchasing from Iran. Those six jurisdictions—and only those six—will be permitted to continue to import Iranian oil at current levels, far less than the approximately 2.5 million barrels per day Iran was exporting 2 years ago.

And we are taking steps to allow Iran to access \$4.2 billion of its own funds currently restricted in accounts overseas. We have agreed to a schedule that provides Iran access to these funds in eight installments spread over the span of 6 months, with access to a portion linked to Iran's progress in completing its dilution of near-20 percent enriched uranium. The final installment is slated to occur on the last day of the JPOA, July 20. Access to any of these funds, moreover, is contingent on Iran fulfilling its commitments under the JPOA.

Lastly, we are working with our partners and Iran to establish a mechanism to further facilitate payments for humanitarian transactions and to enable Iran to make payments for medical expenses, university tuition assistance for Iranian students studying abroad, and its U.N. obligations.

All of this relief however, is reversible. It is contingent upon Iran's continuing adherence to the nuclear steps outlined in the JPOA. If we determine that Iran has failed to meet its commitments, we can revoke this limited sanctions relief and, at a minimum, reinstate the suspended sanctions.

#### MAINTAINING PRESSURE ON IRAN

Viewed in light of the depths to which Iran's economy has sunk—brought about in large part by the sanctions that continue to remain in place—the approximately \$7 billion in relief that Iran stands to receive over the next 6 months will not materially affect its economy. To the contrary, because of our ongoing active efforts to implement and enforce the manifold U.S. and international sanctions that remain in place, we expect the economic pressure on Iran will continue unabated during the pendency of the JPOA.

For the first time in 20 years, Iran will be in a recession for two consecutive years: its economy contracted 6 percent in the Iranian fiscal year ending in March 2013, and we assess that it will contract again this fiscal year. Iran will continue to have limited or no access to almost \$100 billion in foreign exchange holdings in accounts overseas. Its budget deficit reached about 5 percent of GDP last year and will remain sizable in the current budget year. And Iran's currency, the rial, has lost around 60 percent of its value against the dollar since 2011 while the official inflation rate is around 38 percent.

Going forward over the 6-month duration of the JPOA, Iran's economy will continue to be buffeted by sanctions, as the core architecture of U.S. sanctions remains firmly in place.

For example, we are continuing to implement and enforce our oil sanctions, which have driven down Iran's oil exports by more than 60 percent over the last 2 years. These sanctions also preclude the purchase of Iranian oil by any country other than Iran's six remaining oil customers, who may not exceed their current purchase levels as outlined in the JPOA and our sanctions relief. During the period of the JPOA, the oil sanctions alone will cost Iran approximately \$30 billion in sales it cannot make.

We are continuing to implement and enforce our financial sanctions, which require the payment for oil imported from Iran by the six current customers to be paid into accounts that can be used only to facilitate humanitarian transactions or bilateral trade between the importing country and Iran. This Iranian oil revenue can neither be brought back to Iran nor moved to third countries, except to facilitate humanitarian trade. And since the accounts that receive the oil revenue already hold more funds than Iran chooses to spend, the effective value of those oil sales to Iran is far less than 100 cents on the dollar.

We are continuing to implement and enforce our banking sanctions, which call for the exclusion from the U.S. financial system of any foreign bank that knowingly engages in significant transactions with designated Iranian banks. The EU is also continuing to implement and enforce its banking sanctions, which have led to the termination of SWIFT access for most Iranian banks. Altogether, these banking sanctions—which all remain fully in force—have largely cut off the Iranian banking sector from the international financial system.

We are continuing to implement and enforce the vast majority of our sanctions on Iran's energy sector. That includes, among other things, sanctions on significant investment in Iran's energy sector and on the sale of significant goods or services that could be used in Iran's energy sector.

And we are continuing to implement and enforce the broad trade embargo between the U.S. and Iran. Outside of transactions involving humanitarian goods, U.S. banks and businesses, including their overseas subsidiaries, are largely forbidden from engaging in any transactions with Iran.

Now, to be sure, since the election of President Rouhani in June, there has been some improvement in a few economic indicators, such as the value of the rial and the inflation rate. None of that improvement, however, is attributable to the limited sanctions relief in the JPOA which, of course, went into effect only 2 weeks ago. Indeed, these indicators are largely unchanged over the past few months. Instead, much of the uptick in these metrics occurred over the summer following the election of President Rouhani in June; they appear to be due largely to public optimism that the Rouhani administration would put in place competent economic managers and obtain comprehensive sanctions relief.

While President Rouhani did, in fact, replace many of those responsible for mismanaging the Iranian economy during President Ahmadinejad's tenure, the JPOA does not deliver comprehensive sanctions relief. To the contrary, because the most potent sanctions remain firmly in place, Iran's economy will remain under pressure. Most importantly, its oil revenues will remain significantly depressed and the vast majority of its foreign reserves will remain restricted or inaccessible. As a result, Iran will continue to straggle to finance its imports, to fund its government operations, and to defend the value of the rial.

Even with a slight uptick here or there in some economic indicators, the continuing impact of our core oil, banking, financial, and energy sector sanctions—and the cumulative impact of those sanctions—means that the Iranian economy is operating at significantly reduced levels and will continue to massively underperform for the foreseeable future. To get out of the hole that it is in, Iran needs better economic management and substantial, structural economic relief that can come only from lifting the broad sanctions that remain in place—something the JPOA does not contemplate, but the promise of which we assess will motivate Iran to negotiate a serious and comprehensive solution to our concerns with Iran's nuclear program in the next phase.

#### ENGAGEMENT WITH FOREIGN COUNTERPARTS AND THE PRIVATE SECTOR

So while we remain committed to providing, in good faith, the relief agreed to under the JPOA, we also remain hard at work implementing and enforcing a sanctions regime left largely intact by the JPOA—a sanctions regime of unprecedented force and scope. The reason is simple: We know that intense sanctions pressure helped bring about the JPOA, and likewise will be a critical component in the negotiations to come.

To ensure the force and scope of our sanctions, we are continuing our longstanding efforts to work with our international counterparts in the application and enforcement of our sanctions. This has been a whole-of-government effort, involving officials at all levels of the administration. Secretary Lew, for example, has met with many of his counterparts in Europe and with literally hundreds of business and banking executives to drive home the point that the sanctions relief in the JPOA is narrow, that the sanctions that remain in place are broad, and that we intend to enforce our sanctions vigorously. And over the last 6 weeks, I have traveled to the U.K., Germany, Italy, Austria, Turkey, and the United Arab Emirates carrying the same message: Iran is not open for business.

In meetings with banks, businesses, and trade promotion authorities, as well as with our governmental counterparts, I have explained that complex, robust, and broad sanctions remain in effect. This means, of course, that substantial legal risk remains for anyone attempting to do business with Iran. I have pointed out in particular that all of our banking sanctions, and all of the EU's banking sanctions, remain in place, which means that any business looking to get paid for delivering goods to Iran will continue to confront an Iranian financial sector largely cut off from the SWIFT network and mostly unable to transact internationally.

And I have also emphasized that anyone doing business with Iran continues to incur significant reputational risk. For years, we have exposed the complexity and sophistication of Iran's deceptive attempts to evade sanctions to acquire material for its nuclear program—hiding behind false front companies, deleting identifying information from contracts and payment messages, and disguising the origin of its oil.

The line between licit and illicit Iranian business has always been blurry at best, and that has not changed.

#### CONTINUED ROBUST ENFORCEMENT OF SANCTIONS

Now, we recognize that most businesspersons and bankers do not set out intentionally to engage in sanctionable transactions. And I would also strongly encourage anyone, anywhere who thinks now might be a good time to test the boundaries and challenge our resolve to think again.

As President Obama has made clear, we will continue to vigorously enforce the vast array of sanctions that are not suspended by the JPOA—sanctions that reach Iran’s energy, banking, and trade sectors, along with its access to the international financial system. We also will continue to target Iran’s support for terrorism and human rights abuses. And we will continue—in the days, weeks, and months ahead—to respond to Iran’s efforts to evade our sanctions, wherever they may occur.

We know that some companies are talking to the Iranians. While there is nothing necessarily sanctionable about just talking, if those conversations turn into deals that exceed the narrow bounds of the relief agreed to in the JPOA and involve sanctionable activity, we will not hesitate to respond. Indeed, the JPOA implementation understandings themselves explicitly recognize that we will enforce existing sanctions.

And we are doing so. Just last week, for example, Treasury reached a \$9.5 million settlement with the Bank of Moscow to settle potential civil liability for 69 transfers it sent to, or through, U.S. banks that were for, or on behalf of, Bank Melli Iran ZAO, a sanctioned Iranian entity. None of the payment messages Bank of Moscow sent included direct references to Bank Melli Iran ZAO. Instead, the Iranian bank was identified through the use of abbreviations while the Bank of Moscow avoided using terms such as “Melli,” “Iran,” or the bank’s SWIFT Business Identifier Code. This settlement follows a string of Iran-related enforcement actions we have taken over the past few weeks and months.

Two weeks ago, we announced a landmark \$152 million settlement agreement with Clearstream Banking S.A., of Luxembourg, to settle its potential civil liability for providing Iran with substantial and unauthorized access to the U.S. financial system. Specifically, Clearstream served as the intermediary through which the Central Bank of Iran was able to maintain a beneficial ownership interest in securities held in custody in the United States.

And before that, we reached a \$33 million settlement with the Royal Bank of Scotland and a \$91 million settlement with Weatherford International, Ltd. Both settlements involved investigations of apparent violations of our sanctions on Iran; the latter was Treasury’s largest-ever settlement outside of the banking industry.

At the end of last year, we designated more than a dozen targets located inside Iran and around the world—from Cyprus to Singapore—involved in efforts to help Iran or its military procure goods and technology for Iran’s nuclear or defense sectors through front companies and deceptive financial transactions.

And we will continue to detect, disrupt, and disable those facilitating Iran’s nuclear and missile programs by identifying front companies, evaders, and violators and sanctioning them. We have done so more than 600 times before and we will continue to do so during the next 6 months.

The message should be clear: The United States is watching, and the administration is poised to deploy our tools against anyone, anywhere, who violates our sanctions.

#### CONCLUSION

The Joint Plan of Action has created the space, over the next 6 months, to explore the possibility of a long-term, comprehensive solution to concerns with Iran’s nuclear program. Achieving that goal will require, among many other things, that we deliver on our commitments to provide the specific, limited relief contemplated by the JPOA while maintaining significant pressure on Iran. And that is precisely what we intend to do.

The CHAIRMAN. Thank you.

Secretary Sherman, so—maybe you can just answer this “yes” or “no”—a final agreement would include closing the Fordow facility.

Ms. SHERMAN. In all of these questions today, I am going to be thoughtful about what I say, Senator, not because I do not want to be direct, but I do not want to negotiate with Iran in public so

that they know what our positions are going to be at the negotiating table. So, I will be as forthcoming as I can be—

The CHAIRMAN. Well, some of these are so obvious. You said in your own testimony—

Ms. SHERMAN. I am going to say it. I am going to answer your question. But, I am making a statement, just in general terms, because I do not want to frustrate the members—and be glad to have further conversation, in a private setting, in greater detail.

But, where Fordow is concerned, as I said in my testimony, we see no reason for Fordow to remain an enrichment facility.

The CHAIRMAN. All right, thank you.

With reference to the Arak heavy water reactor, I would assume that that would not be permitted to go online.

Ms. SHERMAN. We do not believe there is any reason for a heavy water reactor at all in a civil nuclear program of the type that Iran is interested in.

The CHAIRMAN. With reference to the centrifuges that exist—which our understanding is about 20,000, at least by published reports and other reports, David Albright, who is on our second panel, and others, have suggested that, for a final agreement, in addition to closing the Fordow facility, there would be a need to remove between 15- and 16,000 of its 20,000 centrifuges. Do you agree with that estimate?

Ms. SHERMAN. I am not going to get into a specific number in this setting, Senator. What I will say is, there is no doubt that the number of centrifuges needs to be addressed.

The CHAIRMAN. Okay. And, by that, we mean that there needs to be a reduction.

Ms. SHERMAN. Yes.

The CHAIRMAN. Okay.

Now, with reference—so, you will not give us a number, but when President Rouhani says, “No, we are not going to destroy any centrifuges,” you just think that is domestic consumption.

Ms. SHERMAN. I believe that is domestic consumption in an opening maximalist negotiating position, and I would not expect any less. What I will care about, what we will all care about, what we all should care about, is what Iran does, what commitments they make and which of those commitments can be verified have actually taken place.

The CHAIRMAN. With reference to an area that was not frozen in the interim deal with Iran, which is Iran’s Centrifuge Research and Development Program, which, basically, Iran can continue its development of its more advanced centrifuges during this whole period of time at the Natanz Pilot Program, under the loophole in the interim agreement. And challenging, because Iran is able to measure the enrichment level of the product before it re-mixes it. So, at the end of the interim period, Iran is likely to be far better positioned to deploy reliable IR-2m centrifuges on a mass scale at its enrichment plants, and this gain would allow Iran to make up for time lost, very quickly. Is significantly or dramatically drawing back on their research-and-development plans on centrifuges a critical element of a final agreement?

Ms. SHERMAN. No doubt, there will be very difficult discussions around R&D because of its significant—but, I would say one thing,

Senator. In fact, Mr. Chairman, their R&D program was frozen, where centrifuge development is concerned, in a couple of important ways, in the Joint Plan. First of all, they cannot work on any advanced centrifuges that are not listed in the November 14 IAEA report. That is really the baseline for any continued work. So, it was frozen at the November 14 setting. In terms of replacing any damaged centrifuges in Fordow or Natanz, they can only do it with same-type, not-more-advanced, centrifuges, and they cannot install any new advanced centrifuges into the Natanz research facility.

The CHAIRMAN. Yes. But, that is not on the point that I raised with you. So, let me read directly to you from David Albright's testimony, which we will hear in the second panel. "An area that was not frozen in the interim deal is Iran's Centrifuge Research and Development Program. Iran can continue its development of the IR-2m centrifuges at the Natanz Pilot Plant under this loophole in the interim deal. It can enrich uranium in a production-scale cascade of 164 IR-2m centrifuges. And since it re-mixes the enriched uranium product with the waste, obtaining natural uranium, no enriched uranium is deposited into the product tanks. This re-mixing meets the letter of the deal. However, Iran is able to measure the enrichment level of the product before re-mixing it; thus, it can further develop these centrifuges while hiding any results of its progress from the IAEA, which has access only to the product tank or the natural uranium, and does not see the enrichment measurements. At the end of the interim period, Iran is likely to be far better positioned to deploy reliable IR-2m centrifuges on a mass scale at its enrichment plants. This gain would allow Iran to make up for time lost more quickly." That is—do you dispute that?

Ms. SHERMAN. What I would say, Senator, is, I would quite agree with you that R&D is an area of concern. Their research and development on advanced centrifuges is an area of concern, and it will be something that we will be quite focused on in the final comprehensive agreement. I am not an expert of the quality of Dr. Albright, and I have great regard for his assessments, and I would be glad to have our experts sit down with you or your staff and go over the specifics of that—

The CHAIRMAN. Okay, I appreciate that.

What about Parchin? Why is Parchin—why was Parchin—Parchin being so incredibly important for the framework under which you are negotiating. Parchin, the world believes, is where Iran was weaponizing its nuclear efforts; yet, in this agreement, and the interim, the Joint Plan of Action, we have no access to Parchin. Now, Parchin has already gone under mass excavation by the Iranians, when the world became aware of it, as a way, I believe, to ultimately try to cover up their weaponization program. But, obviously, if we were negotiating with access to Parchin, which I believe and others believe would prove their efforts to weaponization, the framework under which we would be negotiating would be much different, versus—you know, a supposition versus a reality.

So, is access to Parchin, why you did not achieve it—I do not know if you even raised it in the interim Joint Plan of Action—is access to Parchin a critical element of your final deal?

Ms. SHERMAN. Senator, we, in fact, did raise Parchin. We raised possible military dimensions. And, in fact, in the Joint Plan of Action, we have required that Iran come clean on its past actions as part of any comprehensive agreement, in three very critical ways.

First, the Joint Plan of Action says that we will work with the IAEA to facilitate resolution of past and present issues of concern. And that is a formula used by the IAEA in addressing possible military dimensions, including Parchin. So, we expect, indeed, Parchin to be resolved.

Secondly, the plan says: before the final step, there would be additional steps in between the initial measures and the final step, including addressing the U.N. Security Council Resolutions, which require, in fact, dealing with issues of past concerns.

And third, all the sanctions on over 600 individuals and entities targeted for supporting Iran's nuclear and ballistic missile program will remain in effect until those concerns are addressed.

So, to summarize, yes, we have raised it—

The CHAIRMAN. And they rejected—

Ms. SHERMAN [continuing]. Second, they must be resolved.

The CHAIRMAN [continuing]. They rejected any access to Parchin—

Ms. SHERMAN. They have not rejected it.

The CHAIRMAN. In the interim—in your Joint Plan of Action, they rejected, during this period of time, access to it.

Ms. SHERMAN. No, they have not rejected it; they know it has to be addressed, whether it—I hope it is addressed within the 6 months while we are addressing the comprehensive agreement. And, as you know, the IAEA will be meeting with Iran on February 8, and these specific issues of their possible military dimensions are very key and central to the agenda. So, I hope, and I would urge, Iran to address Parchin during these 6 months while we are negotiating the comprehensive agreement, because it will increase the confidence that we will actually get to a final and comprehensive resolution.

The CHAIRMAN. Two final questions. Reuters has a report this morning that the IAEA is exploring with Iran its productions of polonium, which is a material that can trigger an atomic explosion. Is this a new development or is this something that you raised with the Iranians during your interim negotiations?

Ms. SHERMAN. I am not aware of that Reuters report, so I would have to take a look at it, Senator.

The CHAIRMAN. Well, I would ask you to respond to the committee, look at the report—

Ms. SHERMAN. Sure.

The CHAIRMAN [continuing]. And respond to the committee. One final—

Ms. SHERMAN. Be glad to.

The CHAIRMAN [continuing]. Question, for you, Secretary Cohen. All of the sanctions that I have offered with Senator Kirk, and members have supported, they always have to have at least a 6-month period of time in order to give countries and companies the notice required and the time for you to do the regulations necessary to precede them. Is that a fair statement?

Mr. COHEN. I assume so, Senator. I have not—

The CHAIRMAN. Well, you are enforcing them, and you have had to pursue them. Have you had less than 6 months to be able to pursue any of the sanctions that we have passed?

Mr. COHEN. Senator, I, sitting here right now, do not recall every piece of legislation, whether any of them were immediately effective or there was a phase-in for all of them. We have, you know, of course, implemented the sanctions that Congress passes as promptly as possible.

The CHAIRMAN. Well, I think it is pretty well—one can take judicial notice of the legislation. The legislation that became law always had a very long lead time, and then, after that, you went to work to try to pursue it. And the problem is, to suggest that we can quickly pass sanctions is to not recognize that, when we pass sanctions, there are 6 months from the date of signing before it ever goes into effect, and then, after that, there is the whole period of time for you actually to pursue enforcement.

So, in reality, the only effect that we have is over time. When the Iranians, based upon testimony that has been received and will be received today, looking at 6 to 8 weeks or 2 months or so of their potential breakout period if a deal does not come through, sanctions will—to enforce sanctions then will be far beyond the scope of the window and will not be a calculus for them. And so, that is part of the problem with suggesting that, yes, we can pass sanctions at any time. Not simply about passing sanctions, it is about the timeframe necessary to have them be effective and ultimately to take effect. And that is way beyond the window.

Senator Corker.

Senator CORKER. Thank you, Mr. Chairman.

And I would just—Ms. Sherman, I appreciate, again, your testimony. I think you know that, again, all of us want to see a negotiated settlement. We want to see a peaceful end to this. But, all of us are concerned—I do not know if you want to continue on or—concerned about the way this interim deal has been struck.

I made reference, in my opening comments, about Iran's ability to perfect things, and pause, and then perfect other things. Just curious, why did you all not, in this agreement, in any way address the delivery mechanisms, the military components of nuclear arms? Why was that left off? Since they have reached a threshold that everyone acknowledges, they can build a bomb. We know that. They know that. They have advanced centrifuges. We have a major loophole in the research-and-development area, that everyone acknowledges. And yet, we are going to allow them, over this next year, to continue to perfect the other piece of this, which is the delivery mechanism. Why did we do that?

Ms. SHERMAN. Senator, first of all, and I should have said this when the chairman asked the question—you know, we see this as a first step, so we do not consider the gaps that exist “loopholes,” because this is not a final agreement; this is a first step.

Senator CORKER. Catherine Ashton has said that it would take a year—she said it would take 6 months just to write up technical documents to begin discussing. She is one of your four partners, I know. So, we probably have a period longer than 6 months where they can continue on. I mean, again, I just do not understand why an interim deal would not address them stopping the perfecting of



those things that allow what they have already perfected to be delivered.

Ms. SHERMAN. I would say a couple of things.

First of all, the Joint Plan of Action does address the fact that their ballistic missiles that could be used as a delivery mechanism for nuclear weapons must be addressed as part of a comprehensive solution, because it is part of the U.N. Security Council resolutions. So, it is true that, in these first 6 months, we have not shut down all of their production of any ballistic missile that could have anything to do with delivery of a nuclear weapon. But, that is, indeed, going to be part of something that has to be addressed as part of a comprehensive agreement.

Secondly, I would say to you, Senator, that if we are successful in assuring ourselves and the world community that Iran cannot obtain a nuclear weapon—cannot obtain a nuclear weapon—then them not having a nuclear weapon makes delivery systems almost—not entirely, but almost irrelevant.

Senator CORKER. Well, so let me ask you this question. I think most neutral observers would state that all we have really done, since they are not dismantling as you know, both their President and Foreign Minister has made that real clear—they are not dismantling—so, in essence, what you have done in this interim deal is, you have given us 30 days additional time for breakout. Thirty days. And yet, they have got a year; a year to probably—probably longer, candidly—to develop these delivery mechanisms.

Now, I will say—I mean, some people may debate about what their enrichment is for. I do not think many people on this committee think that what they have been doing is solely for civil purposes. But, there is no debate on delivery mechanisms. And I am just curious, why would you negotiate a deal that allows that to continue? I do not get it. Why would you say that would be a part of the next deal, since they have already perfected the first part? It seems to me that being able to deliver it is an important aspect, but apparently not so, in your case.

Ms. SHERMAN. Well, Senator, you and I disagree about the conclusion of the Joint Plan of Action. We believe that it has set out a framework for a comprehensive agreement to ensure that Iran does not obtain a nuclear weapon. We are not to that comprehensive solution yet. We agreed on a 6-month program that freezes where they are and rolls back their program in significant ways to obtain that nuclear weapon. And, in return, we have given very limited, temporary, and targeted sanctions relief.

Quite frankly, if we could have negotiated a comprehensive agreement, which you would prefer and many people would prefer, we would have done it.

Senator CORKER. Yes.

Ms. SHERMAN. But, quite frankly, that was impossible to do in a short period of time. And had we, in fact, tried to negotiate a comprehensive agreement that would have dealt with everything that is of concern to all of us, they would have used that time to march forward much more rapidly in their ability to both develop a nuclear weapon and to develop the delivery system for that nuclear weapon.

Senator CORKER. Yes.

Ms. SHERMAN. So, this is not perfect.

Senator CORKER. No, it is not.

Ms. SHERMAN. But, this does freeze and roll back their program in significant ways and give us time on the clock to, in fact, negotiate that comprehensive agreement. And, as you, yourself, said, we can discuss what the breakout times are, in a classified setting. It has added, relative to where we were, some time on that clock, as well.

Senator CORKER. Some time.

If I could ask just two more questions. I know this is a topic we all care about.

Mr. Cohen, since this negotiation has begun, do you agree that Iran's inflation rate is way down, that their currency is way up, and that economic projections within the country are way up, and that there are people from all over the world who are clamoring to do business with Iran? I know you have traveled around the world, talking to folks about what might happen to them, but is there any question that just the discussions have hugely uplifted the Iranian economy? Is that correct?

Mr. COHEN. Well, Senator, I think what we have seen, in terms of the metrics in Iran's economy, is that there was an uptick immediately after the election of President Rouhani, in June. And so, the value of the rial has increased somewhat since the election of President Rouhani. Inflation has come down since his election.

There has been, essentially, no change at all in the inflation rate or the value of the rial since the Joint Plan of Action was agreed to, in November—

Senator CORKER. But, everybody knew those discussions were underway.

Do you understand why there is a concern, here, that we are alleviating sanctions? You all say 7 billion; I think no rational person believes that that is the only effect, because, in a market, there are expectations. I mean, that is why the Fed, you know, buys securities and gives, you know, its expectations. And so, people are expecting—and you can understand why the chairman would be concerned—that what is going to happen is, at a minimum, a series of rolling interim deals. And I think there are many of us rightly concerned that, at a point—especially if it takes as long as Catherine Ashton is saying, a minimum of a year—at a point, we lose all leverage, if you will, to really do this. Some people have even said, “Well, what we really ought to do is pass a resolution on the Senate floor that says, if we do not come to a resolution, there is a trade embargo or something that is much stronger—not binding, but indicates that we will do something.”

Do you understand why we have those concerns? And do you have a way of Congress addressing those in an appropriate way, since we put the sanctions in place in the first place?

Mr. COHEN. I certainly understand where those concerns come from, but what I can tell you from my travels around the world—and my colleagues report the same in their dealings—is that the limited nature of the relief in the Joint Plan of Action, and the sanctions that remain in place, when we explain that and make sure that the business community, the banking community, our governmental counterparts understand that a deal that would be

permissible under the Joint Plan has to be commenced and concluded within this 6-month period, that anyone shipping goods to Iran is still facing an Iranian banking sector that is largely cut off from the international financial sector, that investment in Iran's energy sector is still sanctionable—when we walk through the very narrow scope of the sanctions that have been relieved and the extensive sanctions that remain in place, what we hear back is that there is interest down the road, potentially, if there is a comprehensive deal and substantial sanctions relief in the Iranian market, but, for this period—for this 6-month period—the interest in trying to take advantage of the narrow suspensions of sanctions in just a few economic areas that have been agreed to is relatively tame. So, you see these delegations going to Tehran, but I think you also see, importantly, the reflection that those conversations are about what may come in the future, not what is available today.

And I should say, we are as crystal clear as possible, in all of our engagements, that if these talks turn into something more, if these talks turn into deals that violate the elaborate sanctions that remain in place, that we will take action.

The CHAIRMAN. Senator Coons.

Senator COONS. Thank you, Chairman Menendez, for chairing this hearing.

And I would like to thank Under Secretaries Sherman and Cohen for your work and for appearing before the committee.

As you have said in your testimony, and as I agree, a strong and crippling sanctions regime imposed on Iran—in large part, passed by this Congress and enforced by this administration—have brought Iran, at last, to the negotiating table. And I remain strongly supportive of their ongoing implementation and enforcement. I am encouraged by your characterization of these sanctions—enforcement and the relief in the Joint Plan of Action—as being temporary, limited, and reversible, but intend to be intensely engaged in ensuring that that is, in fact, the case. As a cosponsor of the Menendez bill, I believe it is important for us to continue to maintain the threat of stronger and more additional sanctions in order to send a clear message to Iran of the ramifications of non-compliance.

I have a number of concerns and unanswered questions about the Joint Plan of Action. I will just reiterate, I share, I think, the goal, of everyone on this committee and the administration, of reaching an agreement that verifiably and irrefutably denies Iran the capability to acquire a nuclear weapons capability. I do hope a final deal can be achieved in the next 6 months that includes the most comprehensive inspection and verification regime possible. And I have a number of questions I would like to ask, following up on that, if I might.

First, as to the IAEA, I sent a letter to the President, along with several other Senators—Mikulski, Warner, Gillibrand, Markey—asking a number of questions, and, in particular, focusing on what the administration will need from Congress in the way of financial support, what the actions will be with the IAEA, and pressing on whether there is any progress, in terms of establishing a field office, the scope and reach of the inspections, and what kinds of

capability, staffing, and funding it may require, so that we can have some certainty about these allegedly novel inspection regimes. We have very disconcerting previous examples in other countries, where inspections failed to uncover clandestine actions, as has previously been the case in Iran. So, I would be interested, Under Secretary Sherman, first, on: When am I going to get an answer to my letter? And what can we be doing to work with you in strengthening the IAEA in their inspections?

Ms. SHERMAN. Thank you very much, Senator, and thank you for your support. And thank you, along with all the members of this committee, for leadership on supporting our efforts to make sure that Iran cannot obtain a nuclear weapon, which, I quite agree, is an objective we all share.

In terms of monitoring and verification, I will find out where that letter is, and we will get it to you, tout suite, Senator. I am sorry it is not up here before this hearing today, and I apologize for that.

The IAEA is going to double its staff. It will have a field office. As you note, the Joint Plan of Action gives us unprecedented access. Before, at Natanz and Fordow, inspectors went about once a week; now they will have daily access. On days in which they might otherwise not be there, there will be surveillance cameras and other monitoring techniques that will be available that are being worked out with the IAEA. Arak, they used to visit maybe once every 3 months; they now will have monthly access to Arak. They are getting the DIQ—the plans in essence—for Arak. They are getting access to centrifuge production facilities, rotor production facilities, to uranium mines and mills. So, it is quite an unprecedented verification and monitoring regime.

The Director General has said there will be some increased cost. We have increased the amount that we will make available out of our budgeted funds to the IAEA. Other countries have come forward, and we greatly appreciate your willingness for Congress to take a look and ensure that the inspection, monitoring, and verification activities can go forward, because they are quite critical, as you point out, to verify that Iran does what it is committed to do and, in a comprehensive agreement, will be even more crucial.

Senator COONS. Let me ask one more question with my remaining time. And, first, in your opening testimony, you highlighted efforts to hold Iran accountable for its ongoing human rights violations, public executions, support for the Assad regime, for Hezbollah, for terrorism. And I appreciate and salute your hard work in holding Iran accountable. This is a regime we cannot trust. One of the most important accomplishments, I think, of this interim Joint Plan is the commitment to dilute the 20-percent highly enriched uranium. And apparently, Tehran will take these steps when it has completed necessary facilities improvements and a conversion line. When is this scheduled to be completed? And what steps are being taken to ensure the Iranians are not dragging their feet or are not using this as a way to covertly enrich in some other vehicle and in some other location?

Ms. SHERMAN. Couple of comments. First, on human rights, we completely agree with you, and, in the coming weeks, the Human Rights Report will come out, and we will detail, as clearly as we

possibly can, how we view Iran's human rights abuses, which you have decidedly and rightly pointed out are of grave concern to us.

In terms of the dilution and conversion, both on the 20-percent and ensuring that the 5-percent stockpile does not get larger than the amount agreed to by the end of the 6-month period, the IAEA will be monitoring all of these actions. And, on the dilution—the conversion will take all 6 months to accomplish, because the technology only allows it to move that quickly, but the IAEA will provide a report, on a monthly basis, of all monitoring and verification activities, that they will share with the Joint Commission, and we will be glad to come up and brief the Hill, in classified session, about those monthly reports. And so, that will be one way that we will verify it.

The second is that, on the dilution, two of the payments of repatriated frozen funds are tied to the dilution schedule—the first on March 1, the second on April 15. So, Iran will not get the funds unless the dilution is completed on the schedule agreed to.

Senator COONS. Thank you. I very much look forward to those classified briefings and to an answer to my letter. Thank you, Under Secretary.

The CHAIRMAN. Senator Risch.

Senator RISCH. Thank you, Mr. Chairman.

Ms. Sherman, your thank you to Senator Coons implied, I think, when you said that you thanked us for supporting the—this committee for supporting the efforts of the administration in this regard—do not put me in that column. I do not want to be thanked, because I do not support what has been done. I think this thing is a disaster. I was stunned when I saw what the agreement was. I have been disgusted as we have gone forward. And I hope you will prove me dead wrong, but I do not think I will, given the history of these people.

But, in any event, I want to focus on just a couple of aspects.

Number one, Pastor Saeed Abedini is a constituent of mine. He is held in jail in Iran. His only crime is being a Christian. You know, last week I see where we showered the Iranians with, what, \$500 million. Why can we not get this guy out of jail? You said that Secretary Kerry had a conversation with Foreign Minister Zarif this weekend at the meeting in Munich. Can you tell us what the substance of that conversation was?

Ms. SHERMAN. Certainly, Senator.

First of all, we completely agree with you. Saeed Abedini, Amir Hekmati, and Robert Levinson should all be home with their families. And nothing I can say today, because they are not yet home, will be satisfactory to you or to their families. And I would agree with them and agree with you in that regard.

Secretary Kerry raised these situations with the Foreign Minister, insisted that these be addressed as quickly as possible, that there was no basis for any of the three of them to be held. And, indeed, we are doing whatever we can, in whatever channel we can, to bring them home as quickly as possible.

Senator RISCH. Well, Ms. Sherman, you know, that is not good enough. Those are just words. Somebody needs to look these people in the eye and tell them they are not getting another penny, and they are not getting anything, until they do a very simple act of

letting three absolutely innocent Americans go free. I hope you will convey that to the Foreign Minister, and I would hope Secretary Kerry would convey that to the Foreign Minister. This is absolutely outrageous, for everything we have given to the Iranians, and them still to hold this. I mean, this is absolute nonsense.

Let me change horses here for just a second. I keep reading in the media about—now that the sanctions have been relaxed—and this has been something that has been a concern of mine from the beginning, that, now that they have been relaxed, our partners—most, if not all, of whom were unwilling partners—are now flooding in there with businesspeople—the French, the Italian, the Irish, the Canadians. You have got political people, you have got businesspeople flooding in there, ready to do business, going back to business as usual with the Iranians. Whose job is it going to be to put the genie back in the bottle when this thing fails? Who is going to do this?

Ms. SHERMAN. Well, let me make one comment and then turn it to Under Secretary Cohen.

A couple of things. As the Under Secretary said, every single member—key member of our administration talks with every country with whom we meet about enforcing and keeping the sanctions in place and on board. And indeed, I believe, based on the conversations I have had with many, including the French—and Secretary Kerry has talked directly to Foreign Minister Fabius about the trade delegation that went; it was a private business delegation, it was not a government delegation—about how this is not helpful in this regard, to ensure that, in fact, it is not business as usual; as Under Secretary Cohen said, Tehran is not open for business, because our sanctions relief is quite temporary, quite limited, and quite targeted—that, in fact, most of these delegations that are going, because we talk to them all, we tell them what are the limits of what they can do, that we will, in fact, go after them, that we will sanction them. Does not matter whether the countries are friend or foe; if they evade our sanctions, we will sanction them. We have all delivered that message, not just Treasury, but every department in our administration, in the executive branch, that, indeed, most of these delegations appear to be going to get themselves in line for the day that, in fact, a comprehensive agreement is reached, if it is reached. And we have told them all that they are putting their reputations, themselves, and their business enterprises at risk if they jump the gun.

Senator RISCH. Well, this is exactly why those of us who were critical of this at the beginning were so critical. The optics of this are such that the rest of the world says, “It is back to business as usual.” You can tell them what you want to tell them, but their acts indicate that they believe it is back to business as usual. That is the problem.

Mr. Cohen.

Mr. COHEN. I completely agree with Under Secretary Sherman, in terms of how we have been making certain that our partners around the world understand that whatever interest they may have in the Iranian market someday, that is not the market today; that what is available today in this Joint Plan of Action is extraordinarily narrow. It is limited, as I said, to petrochemical exports,

to sale of goods to the auto sector, and some trade in precious metals. But, even that is substantially constrained. There is very limited economic potential today in the Iranian business sector. That is the point that we make over and over again in these engagements.

That point, I believe, is getting through. We have not seen deals being done. But, even more importantly, what we have been absolutely clear about is that we will continue to enforce our sanctions. The implementation agreement on the Joint Plan of Action explicitly recognizes that we have the right and that we will fully enforce existing sanctions. And I think that message is one that we have communicated, over the years and more recently, in a pretty credible fashion.

Senator RISC. Well, I understand that that is the message you are giving them. But, it sure does not look like they believe it, because they are acting entirely differently than what the message that you are giving them.

Thank you, Mr. Chairman. My time is up.

The CHAIRMAN. Thank you.

Senator Murphy.

Senator MURPHY. Thank you, Mr. Chairman. Thank you both for being here today.

I want to, frankly, associate myself with the opening comments of Senator Coons. It has been the robust pursuit of sanctions by this administration that has led us to a point today in which we have an opportunity, a chance, to achieve a peaceful resolution to this crisis.

Under Secretary Sherman, as you know, I was in Munich this weekend, sat on a panel with Foreign Minister Zarif, and he made the laughable contention that Iran was at the table today for reasons having nothing to do with the sanctions policy. That being said, though no one in the audience believed it, there was a discussion there about the different trade missions, mainly of a private nature, that have gone to Tehran. And Secretary Kerry was there, pushing hard, as you mentioned, back on our partners to make sure that those were simply missions connected to potential future activities rather than undermining of these sanctions.

And let me give you, just, my impression, and you tell me if I am wrong.

The fact that there are groups going to Tehran or thinking about their potential future opportunities seems to me to have nothing to do with the interim agreement. To me, if we were to have entered into negotiations right away on a final settlement, the same thing would have happened. Once there was a window into potential normalized trade relations with Iran, there are going to be private entities that are going to start having those discussions. And so, the idea that there are some conversations happening about future trade opportunities seems to be a consequence of a negotiation beginning, whether or not there is an interim trade agreement in place. And I just want to, from both of you, understand if that is your impression.

Mr. COHEN. I think that is exactly right, and it is—as I was saying earlier—it is what we have been hearing from these various trade promotion agencies, governments, the private industries that

we have been talking to, is that they are not there, looking to do business today; what they are there for is to see what might come in the future, because there is some hope that these negotiations will produce a comprehensive agreement that brings with it substantial sanctions relief. But, that is down the road; that is not today.

Ms. SHERMAN. I would agree with the Under Secretary and add one other thing which is a little counterintuitive. We hope people do not go to Tehran. That is our preference. But, those who go raise hopes that the Rouhani administration is going to have to deliver on. And the only way they can deliver on those hopes is a comprehensive agreement that we will agree to. And that means a verifiable assurance that they are not developing, creating, will have, obtaining a nuclear weapon. And so, although we do not want people to go, because we think it does send the wrong message, if they do go, it puts pressure, perversely, on the Rouhani administration, because, as far as we have seen today, there are not deals getting done, but, rather, people getting first in line, in the hope that someday there will be a deal.

Senator MURPHY. And to the extent that there is enormous economic opportunity in that country today, it is because of the crippling nature of the sanctions that have so gravely undermined the economy that there is such room for improvement, should the sanctions be partially or fully lifted.

Under Secretary Sherman, just one additional question. We do have to pay attention to the internal political dynamics in the country, because it dictates whether or not they are actually going to be able to get a deal. Is there any new information about the length of the leash that Zarif and Rouhani have been given by the Supreme Leader? Is there any evidence that the hardliners, since the interim agreement have been signed, are winning or losing the internal battle to be able to allow for there to be domestic political support for a deal that is amenable to the United States to be achieved in this negotiation?

Ms. SHERMAN. We constantly ask our intelligence community to update their assessment, and that is certainly an assessment we should share, and will share, with you all on an ongoing basis.

I think there is no doubt that there are hardliners in Tehran. Sometimes that is overstated, for negotiating effect. But, it is real and substantial. And so, I think Zarif walks a fairly fine line.

One of the things I think we all try to be conscious of is not to increase the space for the hardliners, while, at the same time, not allowing Tehran to overstate the politics they have to deal with.

Senator MURPHY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rubio.

Senator RUBIO. Thank you.

So, let me describe what I think the leash is. And I do not think this takes a tremendous amount of any secret intelligence to arrive at it. I think the leash is—and I have stated this in our meetings before—go and see what sanctions relief you can get without giving up what we believe—Iranians believe is their inherent right to enrich. Because if they can keep that infrastructure in place, they are always one or two, three steps away from being a nuclear-armed power.



So, here is where I am—need some clarification. Okay? According to the administration, we have not—as part of this Joint Plan of Action, have not recognized the right to enrich for the Iranian Government, nor do we intend to. The document does not say anything about recognizing a right to enrich uranium. But, in the letter from President Rouhani to the Supreme Leader, he states that the agreement includes, “the formal recognition of the nuclear rights of Iran,” implying that this acknowledges their right to enrich. He has said, “Under no circumstances”—Rouhani has said this publicly—“Under no circumstances will there ever be a deal in which we agree to dismantle our enrichment capabilities.” That is the line in the sand that he has drawn on the enrichment issue.

Do we have a line in the sand on the enrichment issue?

Ms. SHERMAN. Our line in the sand on the enrichment issue is that any comprehensive agreement should give us full confidence and assurance, in a verifiable manner, that Iran cannot obtain a nuclear weapon.

Senator RUBIO. Well, so then my question is, Is a capability to enrich, is that not, in and of itself, a significant—just the fact that you have the infrastructure to enrich at any level, is that not a critical capacity for a country that has a plan to have the option of going nuclear-armed one day?

Ms. SHERMAN. Every country has the potential for that capability, and if we dismantle—and I would hope we can; I do not know whether we will be able to—every piece of the infrastructure that Iran has, they would still have the knowledge. They cannot unlearn what they know. So, they would be able to reconstitute an enrichment program, they would be able to reconstitute their research and development, because their scientists cannot unlearn what they have learned how to do.

So, what we are trying to do, Senator, in a comprehensive agreement, is to put in place the elements that will give us a verifiable assurance that they cannot obtain a nuclear weapon. And there are many paths to that end.

Senator RUBIO. You know, I understand their scientists will know how to do it, but you still need the infrastructure, you—

Ms. SHERMAN. Sure.

Senator RUBIO [continuing]. Still need the facilities to—

Ms. SHERMAN. Sure.

Senator RUBIO [continuing]. Enrich. And many countries have scientists that know how to do it, but they do not do it, including many of our allies. And so, we are now—potentially, the concern is, we are going to leave in place any sort of facilities that, when the world is distracted in 5 years on some other thing, they can move fairly quickly.

Let me point something else out. Multiple countries have the ability to enrich, but they do not, because they obtain it from elsewhere, because they do not have these designs. And few countries that enrich also have a ballistic missiles program.

So, let me ask you this question. U.N. Security Council Resolution 1929 contains a provision referring to their ballistic missile program. It prohibits them from acquiring an interest in any commercial activity in another state involving technology related to ballistic missiles, which you only build for the purposes of deliv-

ering a nuclear warhead, that level of expense that it brings. How is that going to be addressed? Because is that not a key component? In essence, if they retain a right and an infrastructure to enrich at 5 percent, but they are building ballistic missiles, then the only thing missing here is a quick ramp-up of the enrichment capability, and now they are a nuclear power.

Ms. SHERMAN. Senator, I hope that Tehran listened very carefully to what you said, because we agree, it would be better for Iran to—if they want a civil nuclear program, to, in fact, bring the fuel in from the outside and not have an indigenous enrichment program. They would get better nuclear cooperation, they would probably get better price, lots of things might be better for them. And that will absolutely be on the table in the negotiations we have with them. Because you are quite right, there are plenty of countries who do this, who have dignity and pride and scientists and everything else they need for scientific and technological advancement. But, we have said, in the Joint Plan of Action, that, depending upon where we get in the comprehensive agreement, we are willing to consider a very limited, very intrusive, very heavily monitored, small, limited enrichment program, if it becomes a necessity. But, nothing is agreed—

Senator RUBIO. Right.

Ms. SHERMAN [continuing]. Until everything is agreed.

Senator RUBIO. Well, then—

Ms. SHERMAN. And on your point about ballistic missiles, indeed we have said that the U.N. Security Council resolution has to be addressed, and ballistic missiles capable of delivering a nuclear weapon are part of that consideration.

And the last point I would make is, if we can get—and I do not know yet whether we will be successful—but, if we can get to the verifiable assurance that they cannot obtain a nuclear weapon, if we know they cannot have a nuclear weapon, then a delivery mechanism, important as it is, is less important.

The CHAIRMAN. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

When the interim deal was announced in November, it was timed in an interesting way. It was the same weekend where America was commemorating the 50th anniversary of the death of President Kennedy. And I was with many of my colleagues at a security conference in Nova Scotia when the deal was announced. And a great speech of Senator Kennedy's was running through many of our minds that weekend as television was discussing his career. It was the graduation speech he gave at American University a few months before he died, in the spring of 1963. He had started aggressive diplomatic efforts to try to reduce nuclear weapons and the nuclear competition between the United States and the Soviet Union, and he was heavily criticized as naive, foolish, a dupe, et cetera, for doing that. And he made a very aggressive case for the fact that part of American strength is strong diplomacy. And one of the phrases that he used in that speech—and I would recommend the speech to anyone, because it is a very interesting one that reads as if it was written today—is that, with all appropriate skepticism—and this is a direct quote—“we can still reduce tension without relaxing our guard.” Aggressive diplomacy is

needed to reduce tension, and aggressive diplomacy is needed to solve thorny problems, but we do not have to relax our guard.

And I see what we are trying to do with Iran in that spirit. We all want exactly the same thing. We want Iran not to have nuclear weapons. We all will prefer if we can get to that end diplomatically rather than having to use military force. As a member of this committee, I recently cast a vote to use military force to enforce what I thought was a very important international norm. Iran should not have a nuclear weapon, and I will cast a vote to use military force, should that be necessary. But, everyone—everyone in this body, every one of our allies, every one of the P5, everyone throughout the world—would desire, if there is a diplomatic alternative, a diplomatic path to a nonnuclear Iran, that we pursue that path—whatever the chances of success, that we pursue that path.

While we both want these things—a nonnuclear Iran and a preferred diplomatic resolution to this thorny question, rather than a military one—we have differences in tactics. And that is to be understood. And they are good-faith differences. They are good-faith differences. We are debating about a current piece of legislation, and some in this body support it, and some do not, in terms of the timing. Those who support it are not pro-war, those who oppose it are not soft on Iran or anti-Israel. We have a difference in tactic about what is the right way to attain a diplomatic solution to a very thorny problem, the diplomatic solution that is the preferred solution.

I am very clear-eyed about the Iranian threat, not only the nuclear threat, and not only the history of past events, but current events—human rights violations, as have been mentioned, and current practices that are bellicose and destabilizing of other governments in the region and beyond.

And it is the case that the sanctions that Congress has put in place in so many—I have not been part of that legislation. I came here after the legislation was passed, but I can praise those who have been here for putting tough sanctions in place. The vote in 2011 was 100-to-nothing in this body, and the administration has been able to utilize sanctions to bring Iran to the table, because it has crippled their economy and isolated them in the international community.

But, the sanctions are not enough to stop an Iranian nuclear program. And the one thing that I think you would say if you looked at the history is that the sanctions has crippled the economy, but, if anything, it has also, by making Iran isolated, accelerated their path to try to develop nuclear technology, for whatever purpose. And so, if we are going to stop that nuclear program and that quest for nuclear weapons, we have to either do it diplomatically or do it militarily.

I support the sanctions, and I will easily and gladly vote for more if we cannot find an agreement. And I have some ideas about additional ones I want to raise, either with this panel or the second one.

But, I do think that this Joint Plan of Action and the diplomatic efforts of the administration give us an historic opportunity that we cannot afford to put a crosswind into the middle of. The Joint Plan of Action and the interim agreement, in my view, from analyzing

it and reading analysis done by many who are much smarter about me on this, slows and even reverses aspects—not all aspects, but critical aspects of the Iranian nuclear program, which sanctions alone has not been able to do. And it also provides this country and our partners and all of our allies and the entire world a better early-warning system about whether Iran is cheating. We get more time on the clock and a better early-warning system because of this deal.

We have to give diplomacy a chance. We have to. I think aggressive diplomacy has been an underexercised American muscle in the last 15 years. We have to return to the kind of aggressive diplomacy that the Nation embraced when President Roosevelt—Teddy Roosevelt brokered the end of the Russo-Japanese war, won a Nobel Peace Prize for doing so. Since that time, our strength has been measured, not just by our military strength, not just by our economic strength, but the strength of our moral example and the strength of our diplomat effort.

And we can be appropriately skeptical. The President has been very candid, in talking to all of us, that it is maybe 50–50 or whether we will find a deal that we will think would be sufficient. And, if we do not, of course there will be greater sanctions that we will put in place and that we will support. But, we have got to give diplomacy a chance, not only in this instance, but we have got to return to the tradition of aggressive American diplomacy that has been one of the very core elements of our power in the world. It has been underexercised, and I am glad to see we are getting back to it.

And the last thing I will say, just quickly. There may be a day, when this deal does not work, that we do have to contemplate military action to stop Iran from getting a nuclear weapon. I do not think it is that hard to contemplate that we might be at that day at some point in the future. And, as I have said, I will state on the record right now, if there is no other way to stop Iran from getting a nuclear weapon than for us to engage in military action, hopefully with others, I am going to vote yes on that.

But, in order for us to vote yes on that, we have got to be able to look our allies and our citizens, and especially the men and women that we would ask to fight that battle—we would have to be able to look them in the eye and tell them that we had exhausted every diplomatic effort prior to undertaking that significant step. We may have to undertake that significant step, but we should not do it if we leave diplomatic avenues unexplored.

Let us make this negotiation about Iran's good faith, let us not make it about our good faith. Let us demonstrate our good faith and put them to the test of whether they are serious about ending their nuclear weapons program.

The CHAIRMAN. Let me thank the Senator for his thoughtful comments. And maybe the administration can be enlightened to understand the difference between tactics and warmongering and fear-mongering.

Senator Flake.

Senator FLAKE. I thank the Chair.

And I appreciate the comments of my colleague from Virginia, and I share many of those sentiments. I have not signed on to the

new sanctions bill, here. I believe that, if diplomacy can work, we ought to allow it to work.

I have not appreciated some of the comments from the administration describing those who are in favor of a sanctions bill. They are implying that they are warmongering or that they have anything but the best motives. I think that everyone here wants the same thing. And, for the administration or others to describe people who have a different view, I think is unfair.

But, for myself, I hope that these negotiations will work. There are some concerns that I have, just in terms of the specifics. One of the criticisms of the Joint Plan of Action, Ms. Sherman, is that it deals with known nuclear facilities in Iran, but it is a little bit unclear as to what will happen if we discover other facilities that were not known prior to this. How are they covered? Are they—would the term “any new nuclear facility”—is that a new one or newly discovered? And what means do we have to try to find other facilities out there?

Ms. SHERMAN. Thank you very much, Senator, and thank you for your comments.

And, Senator Kaine, thank you very much for yours.

And let me say, for the record, I do not believe any of you, and any Senator, any Member of the House, are warmongers. I do not believe that anyone prefers war. I understand how, as Senator Kaine described, as Jeffrey Goldberg, in his excellent piece, “An Iran Hawk’s Case Against New Iran Sanctions,” describing how one gets to military action and the concerns that we have that tactical considerations may lead us to that choice. But, that is an issue of tactics, as you have pointed out, not an issue of intent, and not a characterization of any individual. So, I quite agree with that.

In terms of new nuclear facilities, we meant exactly what the Joint Plan of Action says: There can be no nuclear facilities, either declared or undeclared. And if we find undeclared new nuclear facilities, then that is a cause of grave concern to all of us, because it would be against the compliance that is required for the Joint Plan of Action. I cannot today tell you what our response would be, but I would imagine it would be quite, quite concerning, and we would have to respond in a very forceful way.

Senator FLAKE. All right.

Do you have concerns that, if we were to impose new sanctions, that our partners, the P5+1, would strike their own deal and leave us out? Is that a possibility? Is that a concern that the administration has?

Ms. SHERMAN. I think that is a possibility, of course. I think, more broadly, Senator, where our allies and partners in the world are concerned, one of the reasons the sanctions regime has been as effective as it has been is because people have climbed on board with us, particularly in our unilateral sanctions. Even when they do not believe in unilateral sanctions, and tell us so at every opportunity, they have, in fact, followed them, because dealing with the American banking system is so crucial to the economy of virtually every country in the world that they have complied even though they do not like them.

And so, if we, in fact, do not give negotiations a chance, they have less of an incentive to stay onboard with that sanctions regime, and we could unwittingly create a rupture in that sanctions enforcement and sanctions regime, which is crucial to the kind of aggressive diplomacy that Senator Kaine was outlining.

Senator FLAKE. Well, thank you. That has always been my feeling. Unilateral sanctions rarely work. There are certain areas, central bank sanctions on the financial sector, where we can certainly lead there, but we always run the risk of getting ahead of our allies or partners, somewhere where they will not go, and then the sanctions regime will unravel. Anybody who thinks that unilateral sanctions work very well, I would give you Cuba as Exhibit A for a long time of unilateral sanctions that simply have not produced the desired outcome. We need our P5+1 partners, and others, to participate with us here. And the stakes are obviously much higher in this regard.

So, thank you for your testimony.

The CHAIRMAN. Senator Durbin.

Senator DURBIN. Thank you very much.

And I want to associate myself with the remarks of my colleague from Virginia. I thought he articulated my point of view in terms of the importance of these negotiations.

Let me ask you a specific question. On the issue of enrichment capacity, it appears, at least at the outset, there is a divergent point of view, in terms of whether or not Iran can retain the enrichment capacity at the end of a successful negotiation process. Any enrichment capacity—not at weapons-grade level, but any enrichment capacity. Would you address that?

Ms. SHERMAN. Sure, Senator.

There is no question it would be far preferable if Iran did not have an indigenous enrichment capability. They will always have the capability, because, as I said earlier, they cannot unlearn what they know, but in terms of actually having a program, it would be preferable if they got any fuel that they needed from outside sources—bought it on the open market, had international cooperation, international consortia. These would always be preferable routes to go.

But, it may be that, at the end of a comprehensive agreement, we have allowed for consideration of a very small, limited enrichment program to meet practical needs, that would be highly monitored, highly verified, with intrusive inspections over a very long duration of time, as—potentially as part of a comprehensive agreement.

But, what is very critical in the Joint Plan of Action is, nothing is agreed to until everything is agreed to. So, there is no prospect that Iran could even have such a small, limited, and highly monitored program without us agreeing to all of that verification, monitoring, and all of the other aspects that would be necessary for a comprehensive agreement, including addressing the U.N. Security Council resolution.

So, we have a long way to go, here.

Senator DURBIN. Going back to Ronald Reagan's famous "trust, but verify," the verification process here involves IEAE inspectors now currently on the ground. And I believe you testified, before I

arrived, that the reports coming back are at least encouraging, in terms of their access. Can you elaborate on that a bit? There are those who say there are things going on they will never be able to see and they will never be told about. And those things could be the most dangerous and threatening.

Ms. SHERMAN. There will be no way, even with military action, to ensure that we know everything that there might be to know. That is true in any country. Both with IAEA inspectors, our national technical means, and other ways, we work to know as much as we possibly can know. And the verification and monitoring that we have put in place with the Joint Plan of Action increases our ability to know whether there are covert activities going on that we may not have been aware of, not only because we have greater access, daily to Natanz and Fordow, greater access to Arak, at least monthly, their plans for Arak, access to uranium mines and mills, access to their centrifuge production, all of which provide clues as to whether something is going on somewhere else, when we can look at the guts of all of these facilities.

So, I think we have greatly increased our ability to know if there is something that is covert that is going on, but I am not going to kid this panel, this committee, or the world, to know that there is any way, ever, that any country can give you 100-percent guarantee that we know everything.

Senator DURBIN. Thank you.

Mr. Chairman, since my colleague from Illinois, Senator Kirk, has been part of the effort on enhanced sanctions, along with Senator Menendez, I want to join in the chorus that you have joined in, Ms. Sherman. I do not question for a moment the motives of anyone engaged in this. We all have the same goal: stop a nuclear Iran, keep Israel safe, stabilize and bring peace to the Middle East. I mean, these are goals we all share. And the approaches may be different.

I have not signed on to this bill. My feeling is that, if these negotiations fail, there are two grim alternatives: a nuclear Iran, or war, or perhaps both. And I want to be able to say, at the end of the day, that we have exhausted every, every reasonable opportunity to negotiate an alternative, short of those two outcomes.

I would also say that those of us on this committee may have a better appreciation for the public sentiment in America on this subject. The most. It was not that long ago that Senator Menendez convened us to discuss President Obama's request for military authority when we believed, and subsequently learned to be true, that there were massive stores of chemical weapons in Syria. I recall that debate, and I recall the public reaction to the suggestion that the President would even have the authority—not boots on the ground, but the authority to use any military action. The public sentiment was overwhelmingly negative. The vote on this committee was 10 to 7. It was never brought to the floor, for obvious reasons.

And I will just kind of back up Senator Kaine's comments earlier. If we believe, God forbid, that we are going to reach some awful alternatives in the future, and want the American people to stand by us, or even listen to us, we have to convince them that we have exhausted every available, reasonable opportunity to avoid conflict

and avoid war. And I think that is why many of us believe we should give these negotiations an opportunity, even with the President's admonition that it is a longshot, or at least a 50–50 shot, of success.

I thank you for your work.

Thanks, Mr. Chairman.

The CHAIRMAN. Let me thank the Senator for his remarks.

And just a comment on the Syria vote, which I think was one of the finest moments of the committee. I will say that it is an example of having given the President authorization that gave him the power to go to Russia and negotiate an agreement to end the chemical weapons for which he had—in Syria—for which he had devised a redline. And, but from a position of strength, that likely would not have happened. And so, I think it is important to recognize that moment in history and what it teaches us.

Senator Paul.

Senator PAUL. Thank you for your testimony.

Ms. Sherman, does the administration consider itself bound to the comprehensive Iran sanctions of 2010 and 2012?

Ms. SHERMAN. If you are talking about legislation that is been passed and signed by the President, of course.

Senator PAUL. In those sanctions, they allow for termination of sanctions once Iran has verifiably dismantled its military, nuclear, biological, chemical, ballistic missile, and ballistic missile launch technologies, as well as no longer being a state sponsor of terrorism. I would consider the administration bound, also, but realize that these are parameters. Even though you are asking to waive these acts, the waiver is 120 days, and you can keep asking. But, I would expect, though, that—and would hope—that that is not going to be the conclusion, that you just keep asking to waive these sanctions and do whatever you want, and that you are working—I am all for negotiation, but you are working on negotiation within the parameters of legislation that has been passed.

My concern is—and this is a concern for the way legislation is written, and has been written, for many things—is that we carve out exceptions and waivers for the Presidency, thinking, “Oh, that is the only reasonable thing to do,” but these waivers become so large that you can drive a truck through them, and they end up having no teeth, and we lose all teeth in any legislation.

For example, I would give you Egypt. You know, we said, “Well, we are not going to give them aid unless they are a democracy.” Well, turns out they are not very close to a democracy, but the administration stamps them as a democracy. And this happened before the coup, when it was not much of a democracy, and it is not much of a democracy now. We had legislation saying, “You cannot get money when there is a military coup,” and we passed legislation basically expanding that waiver to make it really have no teeth at all. And then, in the Omnibus, we ended up passing something that has no restrictions at all, basically, on continuing military aid after a coup.

So, I think, really, that this is a big question, and it should be a big legislative question, when we consider how we write legislation and grant waivers, because I fully believe that, no matter what the testimony is, that the administration has shown the propensity



just to do what they want, and that we may well go through waiver after waiver after waiver; in the end, we may get a negotiated settlement that really does not comply with the sanctions that have been written. So, if we want sanctions to have teeth, we want legislation to have teeth, I think we need to be concerned about how wide and expansive we make these waivers. And that is just a point I would like to make.

But, I do like your comment that you say you do feel bound by legislation, and I hope that will continue to be true.

The CHAIRMAN. Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman.

And thank you both for being here.

Under Secretary Cohen, recently you said that Iran is not open for business, pointing out that the majority of the sanctions remain in place. But yet, we have seen, as I think people have alluded to here, a great deal of interest on the part of some of our European partners in opening trade delegations with Iran. I sent a letter last week to Cathy Ashton, the U.N. High Representative, and to ambassadors of all of those countries which had expressed an interest in trade delegations, expressing my concern about the kind of message that that sends to Iran about where the international community is, relative to the lessening of sanctions. And I wonder if you could speak to whether these trade delegations actually do risk undermining our international sanctions regime. And is the appetite in Europe waning to continue to enforce the sanctions that we have in place?

Mr. COHEN. Well, Senator, I have seen your letter, quite appreciate your letter, and completely agree with your letter. I think encouraging our counterparts in Europe—and elsewhere, for that matter—to show restraint, to recognize that the sanctions that remain in place are so comprehensive, so preclusive of doing real business with Iran today that it is not worth the effort to go to Iran to explore business deals now.

Now, we see, of course, that some of these trade delegations are going. What we have seen is that they are exploring the possibility of deals if a long-term agreement is reached and there is substantial sanctions relief that comes as part of that.

What we have been very clear about with our partners is that our preference is that businesses, trade delegations, trade promotion authorities, governments show restraint right now, that, in all events, no deals are struck now that violate the sanctions, and that if any of that occurs, we will respond vigorously in enforcing our sanctions.

Senator SHAHEEN. Excuse me for interrupting, but can you also speak to what kind of a message it sends to Iran, these trade delegations, and whether that lessens their interest in continuing to negotiate at the bargaining table?

Mr. COHEN. Well, I am wary of trying to get inside the psyche of the Iranians, but I will say that I think there is, perhaps, a mixed message that gets to the Iranians on this. On the one hand, it shows that there is an interest in the world in doing business, and for sure the Iranians are trying to elicit that interest. On the other hand, to the extent that these trade delegations convey the message that they are interested in business in the future, that—

not today, but if there is a comprehensive deal—I would cite the remarks of the CEO of the Italian energy company, Eni, who, before he met with President Rouhani in Davos, made a statement that, he said, “The best way for sanctions to be lifted is for sanctions to be applied now, and that we are not doing business in Iran now, that we are looking, potentially, at the future, when there is a comprehensive deal.”

I think that can create within Iran a dynamic, where the Iranian business community, which is desperate to re-engage with the world—they have been cut off from the world. I think Senator Murphy made a good point, that part of the interest, in Europe and elsewhere, in doing business with Iran is that the Iranian economy is performing so far below its capacity right now, because of sanctions, that there is a pent-up demand. And that demand—

Senator SHAHEEN. Excuse me again for interrupting; I just want to get in a final question, which is about Russia and the suggestion that they would do an oil-for-goods deal with Iran, and what we are doing to try to and discourage that, and to discourage other potential countries who might be looking at that same kind of a deal.

Mr. COHEN. We are, across the administration, working extraordinarily hard to ensure that there is no such deal that occurs.

And Under Secretary Sherman wants to add—

Ms. SHERMAN. If I may, Senator.

On the Russia-for-oil, oil-for-bartered-goods deal that was in the newspapers, at all levels of our government, including at the highest level, we have raised our concerns quite directly with Russia about this, and Secretary Kerry has raised this, as have I, quite directly with Iran. And my own sense of this is, after a fair amount of clarity about this matter, that nothing will move forward at this time.

We are very crystal clear that anything like such an agreement between Russia and Iran might have potential sanctionable action and would likely create tremendous rifts within the P5+1, which would make coming to a comprehensive agreement all the more difficult, if not impossible.

So, we have been very clear. My own sense is, that is not moving forward at this time. And I think that if that is indeed the case, that we can continue to verify is the fact, that is a very good decision.

Senator SHAHEEN. Thank you.

The CHAIRMAN. Senator Markey.

Senator MARKEY. Thank you, Mr. Chairman, very much.

I understand that, during the 6-month period that began January 20, the IAEA plans to issue reports each month on Iran’s compliance. I recall that, during the months leading up to the 2003 war in Iraq, inspectors reported on their activities much more frequently, sometimes as often as daily. Is it possible for you to request the IAEA to provide public updates on all activities within Iran at least on a weekly basis, which I think would give everyone a lot more confidence that there is no deception taking place on the part of the Iranian Government?

Ms. SHERMAN. Thank you very much, Senator.

We will certainly discuss your request with the IAEA. This is a very different circumstance than Iraq, in terms of the extent of the

program and the particulars of this situation. The IAEA, as I said, will have daily access to Fordow and Natanz, as well as other surveillance means that are available to them, as well as at least monthly access to Arak and access to uranium mines and mills, centrifuge production, and rotor production plants. So, I think they will have great increased visibility, way beyond anything we have had, to date. But, we will certainly convey your thoughts.

Senator MARKEY. I just think it would be very important for confidence-building, in the United States and around the world, that it be much more frequent than the IAEA has already announced it intends on making public. I think we all have a right to know that, since we are running the risk and the IAEA works for us and the world on this agreement. And I think we should have that information, on an ongoing basis. I think it would be very helpful.

If the IAEA determines that there are compliance concerns, will you ensure such concerns are reported promptly to the American people and to Congress?

Ms. SHERMAN. We will certainly take our responsibilities quite seriously of your oversight.

Senator MARKEY. So, you will report—

Ms. SHERMAN. We will make you—we will—as I said earlier, in the monthly reports we get, we will be glad to come up and do classified briefings.

Senator MARKEY. So, I understand that weekly updates might not be comprehensive, but I think it is important that we get much more frequent briefings.

The interim deal allows Iran to produce centrifuges for the purpose of replacing broken ones. Will inspectors be able to verify that particular centrifuges are, in fact, broken? Will the broken centrifuges be removed from the facilities and provided to IAEA inspectors for examination to confirm that they are actually no longer functioning?

Ms. SHERMAN. I do not know the exact mechanism, Senator, and I will have our experts come up and give you a briefing on what exactly the IAEA will do. But, since, indeed, one of the details of the agreement is, they can only replace damaged centrifuges with centrifuges of the same kind, we have asked the IAEA to verify that is, indeed, what has occurred.

Senator MARKEY. Yes. I think it is important that the ratio stay one-to-one, so the confiscation of the old centrifuges ensure that they just not go to a garage, get fixed immediately, and are now being installed—

Ms. SHERMAN. We agree.

Senator MARKEY [continuing]. In other places. I think it is very important for us to know that.

The interim deal indicated that, in a final agreement, Iran's enrichment program would be restricted to mutually agreed parameters consistent with practical needs. Judging what Iran's practical needs are, of course, is in the eye of the beholder. One of their ministers has recently announced that they need many, many, many new nuclear power plants to generate electricity in their country. So, you were talking about the practical needs of the Iranians, earlier. A country that flares off 13 nuclear power plants equivalents of natural gas each year obviously does not have many practical

needs for multiple new nuclear power plants to generate electricity. So, how are you going to determine that, what is practical? Because, obviously, there is a very high prevarication coefficient, historically, in Iran, and if they plan on building 10 to 20 new nuclear power plants, their practical needs are going to be a vastly expanded nuclear enrichment program in their country, even if it is under tight safeguards.

Ms. SHERMAN. Your point is very well taken, Senator. And, as I said, nothing is agreed until everything is agreed. So, their practical needs are certainly an element of consideration in a comprehensive agreement, but so are our concerns about their ability to have a nuclear weapon, which is primary, that they not obtain a nuclear weapon. And so, whatever the final agreement is, that is the assurance that is most of concern to us.

Senator MARKEY. I appreciate that. But, again, if they build 10 new nuclear power plants, it would be a vast enrichment program they would have to have. And just the complications of monitoring such a program would be exponentially greater. And I just think that we have to keep that in our mind as we are going forward, because that is how they would actually crack this inspections regime in the years ahead, even if we got the comprehensive agreement.

And finally, since the November agreement, have you seen signs of an uptick in Iran's support for proxies and allies around the Middle East? Do you have reason to believe that Iranians feel they now have greater leeway to intervene more aggressively in the region because of the agreement that has been reached on the nuclear program on an interim basis?

Ms. SHERMAN. I think it would probably be valuable to have our intelligence community give you their assessment of exactly that question, because we have asked that question.

I would point out that there was concern by many that they would take the first payment of \$550 million and cycle that into support for Hezbollah in Syria. That does not appear to be the case, and we would be glad to give you the briefing on that.

But, more importantly, I think you have seen in the news that Iran has visibly just provided food to those in their society that are poor, as a way of demonstrating quite directly that this limited, targeted, and temporary sanctions relief has a direct impact on the people in the country, which is what President Rouhani promised. He did not promise that money would be used for other purposes.

Senator MARKEY. So, Senator Shaheen and others have raised this issue. A hundred French executives traveled to Iran yesterday to explore new economic openings. And the same is true for Russia, Germany, China, down the line. I just think it is very important for our administration to say to each of these countries that, if there is no comprehensive agreement, that, not only is the window going to be shut on this trade, and that the United States is going to sanction any of the businessmen who think they are going to cut deals, but that additional sanctions will be put in place, and that additional action will also, perhaps, have to be taken in order to make sure there is no nuclear program. And I think a clear, explicit statement of that would be very reassuring to people, just to know that there will be no games that are going to be allowed

by any of these businessmen, and that they will be punished by the U.S. Government.

Mr. COHEN. Senator Markey, I would just briefly say, that is precisely the message that has been conveyed in the engagements that we have had over the last several weeks, that, you know, there will be no sort of wavering in the enforcement of the sanctions. And also, if we have made the point that if a comprehensive deal is not reached, if, for instance, Iran feels that it does not need to reach a comprehensive deal because they can get sanctions relief through other means, through evasion or through trying to develop these sorts of business activities, that the net consequence of that to all of these businesses is going to be to their detriment. It will be much worse than what they face today. And I think that message is getting across.

The CHAIRMAN. Let me thank you both for your testimony and engagement.

I will have a series of questions for the record, including my understanding that, on the relief on oil purchases, countries may, in fact, purchase more than their last reduced amount. I would like to understand how we are working on that. And, Secretary Cohen, I will be watching to see your enforcement actions.

With that, and with the thanks of the committee, you are both excused.

Let me call up, as our panelists leave, our next panel: David Albright, who is the founder and president of the Institute for Science and International Security, and Mark Dubowitz, who is the executive director of the Foundation for the Defense of Democracies.

As we have our witnesses depart and our new witnesses join us, let me say that both of your statements will fully be included in the record, and we would ask you to summarize them in 5 minutes or so, so that we could enter into a discussion with you.

I would ask those who are leaving to please do so quietly so that the hearing can continue.

It is the intention of the Chair to listen to this testimony, which I think is incredibly important to inform the committee's judgments as we move forward, and then to briefly recess to do our business meeting, which is held at 12 o'clock, and then come back, for those who want to ask questions.

So, with that, Mr. Albright, please, you will start off.

**STATEMENT OF DAVID ALBRIGHT, PRESIDENT, INSTITUTE FOR SCIENCE AND INTERNATIONAL SECURITY, WASHINGTON, DC**

Mr. ALBRIGHT. Mr. Chairman, thank you, Ranking Member Corker and other members of the committee. Thank you again for inviting me.

I think it is been made clear that the Joint Plan of Action has some significant benefits in the short run, but its success remains uncertain, pending the negotiation of long-term arrangements. And finally, the test of this Joint Plan of Action will be in negotiating these long-term arrangements, a process President Obama gives a 50–50 chance of success. And I think it has been made clear, although I would like to state it again, that a final agreement must

create long-term, meaningful limits on Iran's nuclear program, combined with adequate verification sufficient to ensure that any attempt by Iran to build nuclear weapons would be detected in a timely manner and provide adequate time for an international response.

I would like to, first, briefly say some of the things—or say two things about the interim agreement. One is, I do not think it is—I would like to at least say that it does accomplish certain things. I mean, one of the benefits of it is that it avoids a situation that was becoming very dangerous; namely, Iran moving toward very, very short breakout times. And it also adds to the clock, as others have mentioned, but I think it is the combination of those two things that needs to be pointed out.

But, as others have stated, the agreement does have gaps. And I think one has been mentioned, on the centrifuge R&D. And thank you for mentioning that earlier, Chairman.

Another one I would like to mention is that Iran can continue its illicit procurement activities. It is very dependent on outside supply for its centrifuge program, for the Arak reactor; and those efforts can continue; and that it is just essentially, a gap in the deal that cannot be avoided. And there are other problems with it.

So, it really is just a short-term deal, that it should not be looked upon as something that should be extended. If it is extended beyond 6 months, Iran should demonstrate that it has made significant concessions by that point, that it is not just, in a sense, letting the clock run, and that they reach 6 months and then it is just automatically extended.

I think I will skip over the discussion on the weaponization. I think this committee understands, probably better than most, the absolute need for Iran to address the IAEA's concerns about past and possibly ongoing nuclear weapons programs. And I think that it is very important that the administration continue to stick to a clear policy that there will be no comprehensive solution if those concerns are not addressed in a very significant way.

Now, on the comprehensive solution itself, there are two issues involved. One is adequate—or quick detection—or detection before Iran builds a nuclear weapon. But, I think, post the debate on Syria, there has to be enough time for an international response, whatever that is going to be.

And I would add to that, 4 or 5 years from now, one cannot expect any administration to, in a sense, have their finger on the trigger, that whatever is put in place in the comprehensive solution has to provide adequate warning so military options by the United States are not necessary, that there has to be enough time so there truly can be an international response that would stop Iran, and, if the international response includes military actions, that that start through—as it was in the lead-up to the Iraq war in 1991. The United States was not having to act unilaterally.

Now, in such a comprehensive solution, I think it is—we have talked a lot about the breakout times. I mean, at ISIS, we have recently put out a model comprehensive solution, which is available on our Web site, where we think the breakout times have to be at least 6 to 12 months. But, there are many other parts of this that need to be done. One is that its stockpile—Iran's stockpile of low-

enriched uranium, whatever form it is in—is much too large for a comprehensive solution, that having it up to what would be 300 kilograms equivalent of near-20-percent low enriched uranium hexafluoride is not good, even if all that hexafluoride material has been turned into oxide. It can be reconverted.

It is very important to block Iran's plutonium route to nuclear weapons. I think there is much greater agreement on that, that the Arak reactor needs to shut down—we would say, be upgraded to a modern, white water reactor. But, Iran has not accepted that at all.

We also believe that there is a lot of work needed to develop constraints or provisions to limit or reduce Iran's ability to build secret facilities to enrich uranium or separate plutonium. Also, that Iran needs to commit to stopping its illicit procurements of goods for its nuclear programs, that that is often shuttled aside, as it was in the interim agreement, but I think it is critical, in a comprehensive solution, that Iran commit to do that, and that that be verified.

And again, I think we believe that the duration of these constraints needs to be 20 years. Others have suggested even longer.

And also, we would argue that the additional protocol, by itself, is not sufficient, that the term we use, that there has to be additional protocol-plus, which adds in several actions. And some of these actions were used by the IAEA in 2003 and 2004, during the period of the suspension, to really get to the bottom of some of the duplicity of Iran.

And also, I would like to point out that even the comprehensive solution, there is some work that needs to be done when the constraints end. I mean, let us say it is 20 years. After 20 years, is all the constraints just removed and Iran is free, as Senator Markey mentioned, to pursue an enrichment program that would outfit 20 large commercial power reactors? I mean, are we going to feel comfortable, even then? So, I think that is a hole in it.

And I would point out that if such a program, at least in some crude calculations that we have done at ISIS, would involve 2 million IR-1 centrifuges. So, I think there is a need to, as a last comment—and I apologize for going over—for the United States to be very clear about—that it wants a very limited program, and that it—and that, while it is talking about 20 years, the constraints would only come off if a set of criteria were met that guarantee Iran will not build nuclear weapons after that time.

Thank you very much.

[The prepared statement of Mr. Albright follows:]

PREPARED STATEMENT OF DAVID ALBRIGHT

The Joint Plan of Action (JPOA) negotiated between Iran and the United States and its partners in the P5+1 accomplishes a great deal in the short run, but its success remains uncertain, pending the negotiation of long-term arrangements. The JPOA's interim steps, which began on January 20, 2014, are technically sound and lengthen Iran's breakout time to make enough weapon-grade uranium for nuclear weapons, establish transparency over many previously opaque Iranian nuclear activities, and freeze and even temporarily reverse key portions of the nuclear program. The JPOA, however, leaves many key issues unsettled regarding a long-term, comprehensive solution.

The test of the JPOA lies in negotiating these long-term arrangements, a process President Obama gives a 50-50 chance of succeeding. A final agreement must create long-term, meaningful limits on Iran's nuclear program combined with adequate verification sufficient to ensure that any attempt by Iran to build nuclear weapons

would be detected in a timely manner and provide adequate time for an international response.

To improve the chances of success, the United States needs to clearly state its goals and be willing to walk away from a bad deal, particularly also if the administration judges that a deal is unlikely in the face of Iranian delays and unreasonable demands. If a comprehensive solution cannot be negotiated by the end of the interim period, the United States should increase economic sanctions on Iran and move to further its political isolation, while avoiding military strikes. Given the relatively low chances of success, the United States would be prudent to plan for such a possibility today. Doing so would also reinforce a critical message to the international business community and other governments that this crisis is not over and sanctions have a 50–50 chance of being reapplied and strengthened.

#### LIMITED INTERIM DEAL

For 6 months, Iran has pledged to halt advances in major parts of its gas centrifuge program and its Arak reactor. An important accomplishment is that Iran is committed to eliminating its most readily nuclear weapons-usable stock of near 20 percent low enriched uranium through dilution or conversion into oxide form. Iran has committed not to make, install, or stockpile centrifuges during the 6-month period. It will not enrich in any of its approximately 1,000 installed advanced IR-2m centrifuges at the Natanz Fuel Enrichment Plant. The IR-2m centrifuges are particularly problematic because they can enrich three to five times faster than Iran's first generation IR-1 centrifuges, meaning far fewer are needed to make weapon-grade uranium for nuclear weapons. The International Atomic Energy Agency (IAEA) will have greater access to Iran's nuclear sites and information; overall transparency will increase significantly. All these conditions mean Iran's nuclear program will pose fewer risks in the short term.

In particular, Iran would take longer to break out, namely divert its low enriched uranium and further enrich it to weapon-grade in sufficient quantities for a bomb. Once all the near 20-percent low enriched uranium is diluted or converted into oxide, the breakout times, if Iran used its currently installed centrifuges, would lengthen from at least 1 to 1.6 months to at least 1.9 to 2.2 months. This may seem a small increase but with IAEA inspectors visiting daily the Natanz and Fordow enrichment sites, this increase in breakout times would be significant and allow the United States and its allies more time to respond to stop Iran before it produces enough weapon-grade uranium for a bomb. For the first time since Iran's capability to break out began approaching dangerous levels this year, breakout times would lengthen rather than shorten.

While the interim steps remain in place, Iran will be unable to reach the point where it has sufficient centrifuges and near 20 percent enriched uranium to break out and produce enough weapon-grade uranium for a bomb without being detected. ISIS calls this dangerous threshold "critical capability," and estimates that, absent a deal, Iran could achieve this capability in mid-2014. The interim deal, by eliminating Iran's stock of near 20 percent enriched uranium hexafluoride, will delay by many months Iran from achieving this destabilizing threshold, even if the constraints imposed by the deal end after 6 months.

But the interim steps are not without problems. They are limited in nature and are all reversible. So, if no long-term comprehensive solution is reached, Iran could resume making near 20 percent low enriched uranium and installing more centrifuges. The IAEA monitoring, while improved, falls far short of what is necessary for a long-term agreement. Moreover, the increase in breakout times expected at the end of the 6-month period may be helpful but is woefully inadequate for the long term and must be lengthened significantly in any comprehensive solution.

Iran can make progress on its nuclear programs during the interim period. An area that was not frozen in the interim deal is Iran's centrifuge research and development (R&D) program. The interim steps are not expected to seriously affect Iran's centrifuge research and development program. These steps may delay the final development of new centrifuges that have not yet used uranium hexafluoride at the Natanz Pilot Fuel Enrichment Plant. However, Iran can continue development of several existing types of advanced centrifuges, including the IR-2m, the IR-4, IR-6 and IR-6s.

In particular, Iran can continue its development of the IR-2m centrifuges at the Natanz pilot plant under this loophole in the interim deal. It can enrich uranium in a production-scale cascade of 164 IR-2m centrifuges. Since it remixes the enriched uranium product with the waste or "tails," obtaining natural uranium, no enriched uranium is deposited into the product tanks. This remixing meets the "letter of the deal." However, Iran is able to measure the enrichment level of the prod-



uct before remixing it. Thus, it can further develop the IR-2m centrifuge while hiding any results of its progress from the IAEA, which has access only to the product tank or the natural uranium and does not see the enrichment measurements. At the end of the interim period, Iran is likely to be far better positioned to deploy reliable IR-2m centrifuges on a mass-scale at its enrichment plants. This gain would allow Iran to make up for time lost more quickly.

The weakness of the interim deal on centrifuge R&D needs to be fixed in the comprehensive solution. Any long-term deal needs to limit significantly Iran's centrifuge R&D program. An unlimited program would pose unacceptable challenges to a comprehensive solution. A centrifuge five to ten times more capable than the IR-1 centrifuge would require five to ten times fewer centrifuges to make the same amount of weapon-grade uranium for nuclear weapons, allowing for much smaller facilities, fewer personnel, and procurement of less material. Centrifuge R&D could also lead to breakthroughs in materials or methods that would further strengthen a secret breakout effort and make both the implementation and verification of a comprehensive solution extremely difficult. More significant limitations on Iran's centrifuge R&D combined with greater transparency of this program need to be included in the final step of a comprehensive solution, given that Iran's development of more advanced centrifuges would greatly ease its ability to conduct a secret breakout to nuclear weapons.

Another area not addressed in the interim deal is Iran's illicit procurement of goods from overseas for its centrifuge program, Arak reactor, and other nuclear programs. Iran remains highly dependent on acquiring from abroad a range of goods needed in its nuclear programs, such as carbon fiber, maraging steel, vacuum equipment, pumps, and valve-related goods, among many others. ISIS's illicit nuclear trade case studies contain many examples of this dependency and the smuggling methods Iran uses to obtain these goods. The studies also document many U.S. and allies' efforts to detect and stop these illegal procurements. During the interim period, particularly with weakening sanctions, Iran can focus on building up its supply of essential goods and alleviating bottlenecks in certain key goods, allowing for a much more rapid expansion of its programs at the end of the interim period.

These problems will grow the longer the interim period lasts. As a result, the limitations of the interim deal require it to be viewed as only temporary. It is not a substitute for a long-term solution. This finite limit is essential to the integrity of the JPOA. By no means should the interim steps be seen as sufficient for a long-term resolution of the nuclear issue.

The interim deal is intended as a 6-month measure. It can with mutual consent be extended for an additional 6-months for a total of 1 year. But this extension should be avoided unless Iran has demonstrated significant progress on resolving core U.S. concerns. Delay works more in the favor of Iran than it does of the United States and its allies.

#### ADDRESSING THE IAEA'S CONCERNS ABOUT MILITARY DIMENSIONS

One issue that needs to be resolved before the finalization of a comprehensive solution is settling the IAEA's concerns about Iran's past and possibly on-going work on nuclear weapons and other alleged military nuclear activities. Iran has stalled on doing this for years. U.S. officials have stated that unless Iran satisfies all the IAEA's concerns there will be no comprehensive deal.

During the last several months, Iranian officials, including President Hassan Rouhani and Foreign Minister Mohammad Javad Zarif have emphasized that Iran has never pursued or sought a nuclear bomb. Unfortunately, the available evidence provides little reason to believe them.

- The IAEA has considerable evidence of Iranian work on nuclear weapons prior to 2004 and some evidence suggesting that some of that work continued afterward and may continue today. In its November 2011 safeguards report, the IAEA provided evidence of Iran's pre- and post-2003 nuclear weaponization efforts. The IAEA found, "The information indicates that prior to the end of 2003 [the activities] took place under a structured programme. There are also indications that some activities relevant to the development of a nuclear explosive device continued after 2003, and that some may still be ongoing."
- Western intelligence agencies are united in assessing with high confidence that Iran had a nuclear weapon program prior to 2004. They are less united about any such work after 2004. Nonetheless, important allies Britain, France, and Germany all assessed that nuclear weapons relevant work continued after 2003, albeit on a reduced scale.

- Few doubt that Iran is capable of making a crude nuclear explosive today for use in a nuclear test, although doubts remain that it can mount a reliable one on a ballistic missile.
- There is general agreement that the Iranian regime has not made a decision to build a nuclear weapon. There is less agreement whether Iran will refrain from building a nuclear weapon in the future.

The IAEA is scheduled to meet Iran on February 8, 2014, to discuss the next steps for Iran addressing the outstanding issues. Iran will need to allow the IAEA to visit several sites and interview a range of experts and officials in order to address its concerns.

The IAEA has identified several sites to Iran, but so far Iran has refused the IAEA's requests to visit these particular sites. The most prominent is a site at the Parchin military complex that is alleged to have been involved in undertaking high explosive tests related to the development of nuclear weapons. After the IAEA asked to visit this site in early 2012, Iran undertook extensive excavation and reconstruction at this site, compromising the IAEA's ability to settle this issue. Iran will need to address the Parchin issue to the satisfaction of the IAEA, which will inevitably involve more than simply allowing a visit. Other sites include workshops that were involved in making mockups of missile reentry vehicles suitable to hold a nuclear warhead. An upcoming test of Iran's intentions will be whether it soon allows the IAEA to visit Parchin and conduct followup visits and interviews at other sites.

If Iran is unwilling to detail its past efforts to build nuclear weapons, or at the very least acknowledge the existence of a program, it will undermine the credibility of statements about its present-day nuclear activities and intentions. If Iran wants the world to believe it will not hide its nuclear activities or build nuclear weapons in the future, the Iranian Government should reconsider its denials of ever seeking nuclear weapons in the past.

The Iranian Government may reason that if it comes clean about its past activities, it will be punished by the international community. But other cases, such as South Africa, Brazil, and Libya, argue against such a response. The key is admitting these past activities as part of a process of placing strategic limitations on its nuclear programs and instituting far greater transparency. The IAEA and other governments can then develop confidence that Iran is not seeking nuclear weapons. But if Iran seeks to continue to hide its past military nuclear efforts, it may find that no amount of limitations and transparency on its current programs is enough to reassure the international community. Significant questions about its motives, such as a desire to maintain a latent breakout capability, will likely remain. The IAEA will be unlikely to be able to ever find that Iran is in compliance with its safeguards obligations, which remains a key criteria at the heart of the justification for international and regional sanctions.

The Joint Plan of Action is structured to require Iran to satisfy the IAEA's concerns about the possible military dimensions of its nuclear programs prior to achieving a comprehensive solution. If Iran does not, then U.N. Security Council (UNSC) and U.S. economic sanctions should not be removed. In the case of UNSC sanctions, only one member state of the P5 need veto a resolution to prevent removing them, and this state would be fully justified since the IAEA's concerns about possible Iranian military nuclear programs are central to UNSC resolutions.

#### COMPREHENSIVE SOLUTION

In parallel to Iran/IAEA negotiations, the P5+1 will soon start negotiating the provisions of the comprehensive solution. The U.S. negotiators will face very tough resistance from Iran as they seek to achieve a long-term comprehensive agreement that will limit Iran's most dangerous nuclear programs and ensure adequate verification.

The over-riding goal of the negotiations of a comprehensive solution is to establish a set of provisions, and associated verification measures, which if Iran agreed to them would protect the national security interests of the United States and its allies. The resulting limited nuclear programs and extensive verification measures would eliminate the risk of Iran breaking out to nuclear weapons at declared or covert nuclear sites without that effort being detected in a timely manner and without adequate time for U.S. and international responses that would prevent Iran from succeeding in that effort. This approach depends on the United States remaining ready for many years to take the steps necessary to prevent Iran from obtaining nuclear weapons.

However, the need to depend on unilateral military options to deter or prevent breakout would not bode well for the acceptability of a comprehensive solution. Although such options are currently threatened as part of a U.S. policy to prevent

Iran from gaining nuclear weapons, such a policy is not realistic or preferable as a long-term solution. Thus, there is a requirement for meaningful limits on Iran's nuclear capabilities that provide timely warning of any move by Iran to build nuclear weapons and greater assurances that Iran's nuclear program will be exclusively peaceful.

The Joint Plan of Action does not grant Iran the right to enrich uranium, but it accepts that in a comprehensive agreement Iran will maintain a centrifuge program. However, Iran conceded that for a period to be agreed upon, any such program would be subject to limitations on the number of centrifuges, the location of any centrifuge plants, the level of enrichment, and the size of stocks of enriched uranium. It also agreed that the program must be consistent with "practical needs" within "mutually agreed parameters."

In negotiating limitations on Iran's centrifuge and other nuclear programs and adequate verification requirements, the United States should be guided by several key principles, including:

- Extending breakout times significantly to at least 6–12 months, reflecting the numbers and types of centrifuges and stocks of low enriched uranium under a comprehensive solution. This requires that Iran remove over 14,000 centrifuges at the Natanz and Fordow enrichment sites. In the longer term, a fraction of these centrifuges would be stored or dismantled for use as spares and the rest would be destroyed;
- Reducing and limiting Iran's stockpiles of enriched uranium and natural uranium. In the case of near 20 percent low enriched uranium, these stocks would need to be further reduced from the level expected at the end of the interim period;
- Blocking Iran's plutonium route to nuclear weapons;
- Reducing significantly Iran's ability to build secret facilities to enrich uranium or separate plutonium;
- Ensuring that Iran commits to stopping its illicit procurements of goods for its nuclear programs;
- Achieving that any limits on Iran's nuclear programs have a duration of at least 20 years
- Implementing adequate verification that goes beyond the Additional Protocol; and
- Conditioning any end to U.N. Security Council and U.S. economic sanctions on Iran addressing all of the IAEA's concerns, in particular those about Iran's past and possibly on-going nuclear weapons efforts.

The following are a list of provisions that would meet the above principles and form the basis of a comprehensive solution able to protect adequately national security interests. For more detail, the reader is referred to a recent ISIS report on the necessary elements of a comprehensive solution. For background information, the reader is referred to the main ISIS Web site and its Iran-specific Web site.

#### CONDITIONS WITHOUT A DEFINED DURATION

- The Arak reactor complex will be upgraded to a light water reactor using low enriched uranium fuel.
- Iran will not reprocess any irradiated fuel or build a facility capable of reprocessing.
- Iran will not enrich above 5 percent in the isotope uranium 235, and will not produce stocks of enriched uranium that exceed in quantity the needs of its civilian program, noting that it has long term LEU fuel delivery agreements with Russia and would be expected to have additional ones with foreign reactor vendors after the conclusion of a comprehensive solution.
- Iran will commit not to procure goods for its nuclear programs abroad in a manner that is considered illicit ("illicit nuclear trafficking or trade").

#### CONDITIONS AND PARAMETERS WITH A DEFINED DURATION OF 20 YEARS

- Iran will have only one enrichment site, the one at Natanz. The Fordow site will be shut down or converted into a non-centrifuge-related site.
- Centrifuge research and development will only be conducted at the one enrichment site. All centrifuge testing, with or without nuclear material, will occur at this site. Centrifuge research and development will be limited to centrifuges with the theoretical equivalent enrichment output of no more than five separative work units in kilograms uranium (swu) per year. This is about the level of the IR-2m centrifuge.
- Major centrifuge component manufacturing and storage locations will be limited in number and identified.

- Centrifuge assembly will occur only at the one enrichment site.
- The number and type of centrifuges will be limited to ensure that breakout times are measured in many months and will be a minimum of 6 to 12 months at all times.
- In order to define a cap in practical terms, it is necessary to first consider the case where only IR-1 centrifuges are enriching at the Natanz Fuel Enrichment Plant. In the case of a 6-month breakout time, a cap on total number of IR-1 centrifuges at the Natanz site is derived from the condition of the historical IR-1 centrifuge operations at the Natanz Fuel Enrichment Plant and the size of Iran's residual stock of 3.5 and near 20 percent LEU. The estimated cap is about 4,000 IR-1 centrifuges in the case of a breakout estimate of 6 months and fewer centrifuges in the case of a 12-month breakout estimate.
- Because Iran may seek to replace the IR-1 centrifuges with more capable ones, a more general enrichment cap is derived from the cap on IR-1 centrifuges developed above and is approximately 3,600 swu/year. This value serves as a general enrichment cap regardless of the actual enrichment capacity of any centrifuge that would replace the IR-1 centrifuge in the future. If Iran deployed IR-2m centrifuges, for example, the parties would need to agree upon an average centrifuge enrichment value before deriving the number of IR-2m centrifuges needed to produce 3,600 swu/yr. For example, if an IR-2m centrifuge has an average enrichment output of 4 swu per year, then the cap would be 900 IR-2m centrifuges. If Iran deploys any other enrichment technology, such as laser enrichment, it and any centrifuge plant would need to have a total enrichment output at this cap or below.
- In the case of the IR-1 centrifuges, centrifuge manufacturing would be limited to the replacement of broken centrifuges, if no spares exist (see below). For example, in the case of IR-1 centrifuges, a stock of many thousands of uninstalled centrifuges would be stored and then drawn upon to replace broken ones. Thus, Iran would agree not to build any IR-1 centrifuges until this stock is exhausted.<sup>1</sup> Centrifuge manufacturing of new centrifuges in the case of the IR-2m centrifuge, if used for enrichment at the Natanz Fuel Enrichment Plant, would be unnecessary, at least initially, because any broken ones could be drawn from a surplus stock of them. In the case of new centrifuges, Iran will not build more centrifuges than allowed to be installed under the above enrichment cap of 3,600 swu/year and would build more only to replace broken ones.
- When the long-term agreement takes effect, centrifuges and all associated cascade equipment in excess of the cap would be turned off, so that no centrifuges are operating and the cascades are not under vacuum. Centrifuges would be turned off in a controlled manner so as to limit centrifuge damage.
- Right after the comprehensive solution is implemented, excess centrifuges and the cascades containing them would be disabled in a manner so as to require at least one month to restart any disabled cascades.
- Excess centrifuges and associated cascade piping and equipment will be scheduled for removal from Natanz and Fordow and stored under IAEA monitoring. These centrifuges and associated cascade items will be stored at an agreed-upon site under IAEA monitoring, pending their use as replacements of broken centrifuges and cascades or their destruction under monitoring.
- Iran will not build any conversion lines that can convert enriched uranium oxide into hexafluoride form.
- LEU stocks will be limited, based on a realistic civil justification.
  - With regard to near 20 percent LEU, Iran will not possess any such LEU in hexafluoride form and its total stock in unirradiated oxide form including in fresh fuel elements and assemblies, will be less than the equivalent of 100 kg of near 20 percent LEU hexafluoride soon after the start of the implementation of the comprehensive solution. It has the equivalent of approximately 310 kg near 20 percent LEU hexafluoride, ignoring additional production in the last few months. A priority is achieving a reduction of the stock soon after the start of the implementation of the comprehensive solution to no more than the equivalent of 100 kg of near 20 percent LEU hexafluoride. During the implementation period, this stock will be reduced further to below the equivalent of 50 kg of near 20 percent LEU hexafluoride.

<sup>1</sup>Broken centrifuges will be replaced with centrifuges of the same type. This should mean, for example, that an installed IR-1 centrifuge would be replaced with an IR-1 centrifuge of the same design and enrichment capability as the one removed. A broken centrifuge is defined as one that has a rotor assembly incapable of spinning under power and cannot be repaired.

- Iran will not possess more than the equivalent of 20 tonnes of unirradiated, less than 5 percent LEU hexafluoride, almost all of which should be in oxide form. Of this total LEU inventory, Iran will possess no more than 1.5 tonnes LEU hexafluoride at any one time; in essence this cap requires Iran to convert LEU hexafluoride into oxide form.
- LEU in excess of these caps will be blended down to natural uranium or shipped abroad for storage or fuel manufacturing. In practice, this step is likely to be necessary only if Iran does not find a way to use this LEU in reactors during the next decade.
- Uranium mining, milling, and conversion facilities will be limited in throughput to the actual need for enrichment or other mutually agreed upon use.
- At the beginning of the period of the comprehensive solution, a procurement channel will be established for items needed in Iran's nuclear programs. The list of items will be established by mutual agreement and will include major nuclear facilities, nuclear components, nuclear and nuclear-related dual-use goods, and other sensitive items such as those on watch lists. Procurements of listed items outside this channel will be banned and considered illicit nuclear trade. This condition will also have the benefit of more clearly identifying procurements from North Korea to Iran as illicit. Iran will declare to the IAEA the key exports received and these items will be subject to IAEA verification.
- Iran will not export or otherwise transfer nuclear materials, reactors, centrifuges, reprocessing equipment, other nuclear facilities or equipment, or the means to make such equipment or facilities to any state, company, or other entity.<sup>2</sup>
- By the end of the period in which the comprehensive solution will be in force, Iran will implement an export control system in line with the requirements of the four main export control regimes (lists and guidance) and submit a comprehensive report to the 1540 Committee on Iran's implementation of the resolution. Iran will also commit not to export or otherwise transfer reprocessing or enrichment technologies or goods to any state or nonstate actor after the comprehensive solution period ends.

#### ADEQUATE VERIFICATION

The provisions in a comprehensive solution require intrusive verification of Iran's nuclear program aimed at ensuring that Iran's declarations are correct and complete and developing confidence in the absence of undeclared nuclear facilities and materials. The latter condition must include sufficient verification measures to detect the construction and operation of secret gas centrifuge plants, a daunting task in the best of circumstances.

Certain key aspects of the verification arrangements are already clear. One overriding condition that will need to be accepted by Iran is what is commonly called the "Additional Protocol Plus" or "AP Plus." This condition recognizes that, despite its central importance, the Additional Protocol (AP) by itself is necessary but not sufficient to verify any comprehensive solution. The other elements that would comprise the "Plus" need to be further developed, but some have been identified in general. One element is the verification of centrifuge manufacturing, including the declaration and verification of key raw materials and components. The declaration needs to include the origin and amounts of key raw materials and the total number of major components, including the number held in stock, the number manufactured or procured, and their fate. Another element is the verification of uranium obtained abroad and produced domestically; e.g. in uranium mines and mills. A third area is the verification of any key facilities, materials, and components associated with the former military dimensions of Iran's nuclear programs. This step, once put in place, would depend on Iran already having satisfied the IAEA's concerns about the military dimensions of its nuclear programs. A fourth step is that Iran would agree to provide the IAEA with details of past and future imports, exports, and uses of key items listed under INFCIRC 254 part 1 and 2 and other critical goods that are used in Iran's nuclear programs.

<sup>2</sup>A model condition developed by ISIS: The state of concern agrees not to transfer to any state or entity whatsoever, or in any way help a state or entity obtain, nuclear weapons or explosive devices, or components of such weapons; nuclear material; nuclear know-how or technology; or equipment, material, goods, technology designed for, prepared for, or that can contribute to the processing, use, or production of nuclear materials for nuclear weapons or in sanctioned nuclear programs.

## GOAL OF NEGOTIATIONS OF COMPREHENSIVE SOLUTION

As I have underlined, the over-riding goal of the negotiations of a comprehensive solution is eliminate the risk of Iran breaking out to nuclear weapons at declared or covert nuclear sites without that effort being detected in a timely manner and without adequate time for U.S. and international responses that would prevent Iran from succeeding in that effort. In return for these concessions and adequate verification, the United Nations Security Council, the United States, and allied countries should in a phased and reversible manner lift the economic sanctions currently in place against Iran.

An adequate comprehensive solution will depend on the United States and its allies now making clear to Iran what is required of it. Thus, this is indeed a pivotal moment. If the two sides are not able to negotiate an agreement, the P5+1 needs to be prepared to reestablish and increase economic sanctions on Iran. That eventuality needs to be prepared for today.

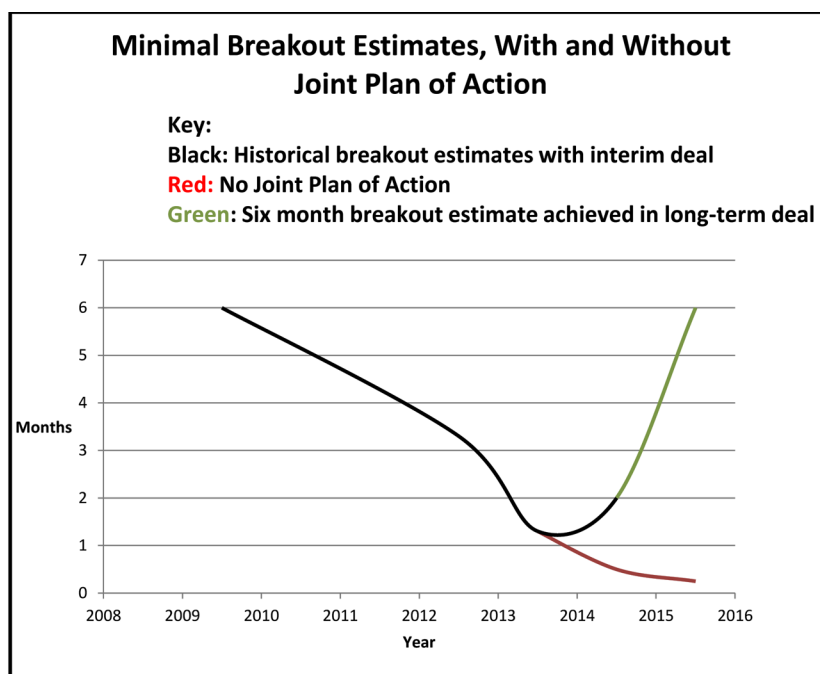


Figure. ISIS's estimated breakout times (central estimates) to produce enough weapon-grade uranium for a nuclear weapon. Breakout times have gotten shorter since 2009, reaching a low near one month by the fall of 2013. Under the interim deal of the Joint Plan of Action (JPA), they will increase to about two months by mid-2014. Afterwards, if a six-months breakout estimate is achieved as part of a comprehensive solution under the JPA, breakout times will further increase. If there had been no Joint Plan of Action, breakout estimates (in red) would have shortened dangerously.

The CHAIRMAN. Thank you. I look forward to your testimony, which I have fully read, is very important, and I look forward to the Q&A to flush out the nature of what such a long-term agreement would be.

Mr. Dubowitz.

**STATEMENT OF MARK DUBOWITZ, EXECUTIVE DIRECTOR,  
FOUNDATION FOR DEFENSE OF DEMOCRACIES, WASHINGTON, DC**

Mr. DUBOWITZ. Great. Well, thank you, Chairman Menendez, Ranking Member Corker, members of the committee. Thank you for inviting me to testify. It is an honor, also, to be testifying alongside David Albright.

We have heard the argument, administration officials have said very clearly, Iran is not open for business. Meanwhile, the Iranian President, the head of the nuclear program, Salehi, are sending the opposite message, including at Davos, most recently. Now, the administration is confident that this sanctions architecture that you have put in place is not going to erode. And President Obama claims, "It is not going to be hard for us to turn the dials back or strengthen sanctions even further."

Who is right? Well, regrettably, I think the administration may be miscalculating. We are already seeing the early stages of an interim shift in market sentiment. This is something that has been unintentionally but, I think, predictably triggered. The JPOA package, estimated by the administration at \$7 billion, may not sound like a lot, but, prior to the agreement, it is important to understand, Iran had fully accessible overseas cash reserves of only \$20 billion. That \$7 billion infusion, therefore, represents a 35-percent increase in Iran's reserves. Moreover, the \$7 billion number does not account for the psychological impact on market sentiment. Sanctions are predicated upon a strategy of escalation, where an ever-expanding web of restrictions spook foreign businesses. Fear triumphed over greed as companies viewed Iran as literally an economic minefield.

But, the tide is slowly starting to turn. While the administration blocks new sanctions in waiting legislation, it provides sanctions relief in key sectors of the Iranian economy, like energy, automotive, petrochemical, precious metals, and aviation. And this unwittingly sends a message that Iran's economy is opening up.

These changes have sparked the beginnings of a modest, tentative, albeit fragile, recovery, as demonstrated by key economic indicators. And facts are stubborn things. So, let us review this.

Iran's GDP dropped by over 4½ percent in 2012–2013, when the toughest sanctions hit. The IMF and World Bank now estimate that GDP will increase by about 5 percent from 2014 to 2016.

Iran's currency, a weathervane for the health of the Iranian economy, dropped by almost 75 percent between 2010 and 2012. But, actually, it has increased by 46 percent since Rouhani's election, and it has increased 18 percent since the announcement of the JPOA.

There has been a dramatic drop in inflation, from an official rate of 40 percent and an unofficial rate of over 60 percent in 2012 to a much more manageable rate of 20 percent, and falling. The Tehran stock exchange, which reflects investor confidence, has almost doubled since Rouhani's election. And we have talked about all the trade delegations that have gone from Europe. In fact, the New York Times says there have been more in the first 2 weeks of 2014 than all of 2013.

Turkey's Prime Minister was just in Iran, and he recently pledged to increase bilateral trade with Iran to \$30 billion by 2015. And foreign companies already are flocking back to the Iranian auto sector. That is the object of some relief. That sector, in 2011, before sanctions hammered the industry, contributed 700,000 jobs and almost \$50 billion to Iran's economy. It is the second-largest sector in Iran, after energy.

Petrochemical sanctions relief opens up even greater opportunity for a sector that, before the JPOA, accounted for the largest source of Iran's nonoil exports. And, Chairman Menendez, you mentioned this earlier. The suspension of oil export reductions is taking pressure off Iran's oil sector, which was in danger of irreparable losses from the forced closure of oil fields. Iran, in fact, is going to save over \$14 billion in oil, fuel oil, and condensate revenues that it otherwise would have lost over the next 6 months.

Now, already the White House and the administration is being challenged by our partners. We have talked about the Russian-Iran deal. Senator Shaheen, you are right, it is an \$18 billion oil-for-goods deal. And that arrangement, which the White House acknowledges as sanctionable, tests Washington's will to enforce sanctions. And it may be worth even more than \$18 billion if it is exploited as an illicit finance scheme.

And we have precedent for this. The Turkey-Iran gas-for-gold scheme, which occurred between 2012 and 2013 without adequate administration enforcement, allowed Iran to reportedly gain access to over \$100 billion. I am also hearing from sources that Iran may be using gold to actually finance the war in Syria. This may be, again, an unintended consequence of relaxing precious metals sanctions. Now, if Washington cannot stop this Russia-Iran deal after failing to crack down on the massive Turkish scheme, what signal does it send to others?

The administration is further cementing the impression of an Iranian economy open for business by blocking S. 1881, which, if passed, would have leant credibility to the administration's message and to have helped reverse market psychology.

However, my concern, that even these tough sanctions in waiting that would have worked today, may be insufficient in 6 to 12 months if Iran is on pace for a sustained economic recovery, if it has made progress on nuclear weapon and ballistic missile development, and if Iran's leaders are unwilling to conclude an acceptable deal. Then President Obama may discover he cannot turn sanctions on and off like a dial. Then the administration and Congress will need to impose a comprehensive financial and trade embargo, within weeks, or risk losing all economic leverage to stop Iran's nuclear-weapons breakout capability. Congress needs to prevent Iran from engaging in endless negotiations and legislate clear parameters and a strict timeline for such a nuclear deal. That work needs to begin immediately with the administration.

Thank you very much for inviting me to testify.

[The prepared statement of Mr. Dubowitz follows:]

PREPARED STATEMENT OF MARK DUBOWITZ

Chairman Menendez, Ranking Member Corker, members of the committee, on behalf of the Foundation for Defense of Democracies (FDD), thank you for inviting me to testify today on the implementation of the Joint Plan of Action with Iran and



the impact of sanctions relief on the negotiations over Iran's illicit nuclear program. I am honored to be testifying alongside David Albright, whose work I hold in the highest regard.

#### INTRODUCTION

Following the announcement of the Joint Plan of Action (JPOA) and the signing of the implementation agreement, Obama administration officials have repeatedly stated that, despite the "limited, temporary, and reversible" sanctions relief,<sup>1</sup> Iran is "not open for business,"<sup>2</sup> that the United States is not significantly easing sanctions on Iran,<sup>3</sup> and that existing sanctions will be enforced in a "very aggressive manner."<sup>4</sup>

At the same time, Iranian President Hassan Rouhani has been aggressively courting foreign companies, including at a recent appearance before the global business and political elite in Davos, Switzerland.<sup>5</sup> Iran's nuclear chief, Ali Akbar Salehi, has boasted, "The iceberg of sanctions is melting while our centrifuges are also still working."<sup>6</sup>

Despite this, the Obama administration and its European allies are confident that, with the Geneva agreement that addresses Iran's illicit nuclear program having been implemented on January 20, 2014, their carefully constructed Iran sanctions' architecture will not be eroded—that is, until they decide to lift the toughest sanctions in exchange for a final nuclear agreement.

Their argument is this: Should Iran renege on the deal, the limited concessions the United States and other world powers are offering Iran in exchange for the dismantling of its illicit nuclear program are easily reversible. They are also adamant that the total value of sanctions relief is only \$7 billion. "It's not going to be hard for us to turn the dials back or strengthen sanctions even further," President Obama claims, adding that he would "work with Members of Congress to put even more pressure on Iran, but there's no reason to do it right now."<sup>7</sup>

Regrettably, the administration and its allies may be miscalculating on these fronts as my testimony outlines. Bijan Khajepour, a Vienna-based Iranian investment manager close to the Iranian Government, noted "the beginnings of a 'gold rush' mood in Tehran."<sup>8</sup> Whether or not that view is yet fully justified, he has correctly identified the early stages of a shift in market sentiment that the interim agreement unintentionally but predictably triggered.<sup>9</sup>

Although the Obama administration is correct that most sanctions measures remain in place, recent macroeconomic trends, changes in market sentiment, economic gains in specific sectors subject to sanctions relief, and worrying signals of large-scale sanctions-busting by U.S. partners indicate that economic pressure on the Iranian Government is diminishing. If Iran's economy recovers, the pressure on Iran's leaders to follow through on a nuclear deal lessens. At that point, President Obama may discover that he has lost negotiating leverage and can't turn sanctions off-and-on like a "dial."

The Obama administration has already dispatched Treasury's top sanctions official, David Cohen, to global capitals to convey the message to policymakers and the business community that nobody should rush to Tehran just yet.<sup>10</sup> There are no more able and committed public officials than Under Secretary Cohen and his sanctions enforcement team. But can they restore fear in the international markets and prevent a psychological shift, both inside and outside Iran, which weakens American negotiating leverage?

The Obama administration is further cementing the impression of an Iranian economy that is open for business by blocking the Nuclear Weapon Free Iran Act, legislation cosponsored by 59 Democratic and Republican Senators and a House bill that passed in July 2013 by a vote of 400–20.<sup>11</sup> Senators have tried to strengthen the administration's hand by introducing "sanctions-in-waiting" legislation to keep a Sword of Damocles over international markets, to enforce Iranian nuclear compliance, and to impose an economic cost on Tehran if it continues its terrorist and ballistic missile activities.

The proposed legislation would lend credibility to the administration's message—that this is the wrong time for companies to go streaming back into Iran. It would also impose a heavy price on sanctions-busters who bet prematurely that Iran will comply with its Geneva nuclear commitments, not launch or support terrorist attacks directly or by its proxies against Americans, not test intermediate-range or long-range ballistic missiles that threaten America and our allies, and meet the international community's requirements for an acceptable deal within 12 months.

With the White House committed to blocking any new congressional measures, the Obama administration is making a bet that it can prevent the unraveling of the sanctions regime and maintain a strong negotiating hand to peacefully resolve the

Iranian nuclear crisis. That is a dangerous bet, particularly when miscalculation could mean the most dangerous state sponsor of terrorism in the world getting its hands on the world's most lethal weapon.

#### THE DOLLAR VALUE OF DIRECT SANCTIONS RELIEF

The Obama administration values the Geneva sanctions relief package at approximately \$7 billion. The relief package allows for the release of \$4.2 billion in cash from frozen oil revenues; sanctions relief on Iran's auto sector, petrochemicals sector and precious metals trade (valued by the administration at \$1.5 billion); civilian aircraft parts relief; \$400 million in Iranian Government tuition assistance for Iranian students studying abroad; and the opening of financial channels to facilitate humanitarian transactions.<sup>12</sup> The package also includes the suspension of congressionally mandated significant reductions in crude oil purchases during the interim period.

An infusion of \$7 billion into Iran's troubled economy might not sound like a lot in today's world. Indeed, the administration has argued that this direct sanctions relief is small and of little importance for a country with an economy of \$1 trillion (GDP in purchasing power parity terms; under \$500 billion in nominal GDP) and foreign reserves worth \$100 billion.<sup>13</sup>

These numbers, however, do not accurately reflect the full value of the actual sanctions relief. Prior to the agreement, Iran had fully accessible overseas cash reserves of only \$20 billion.<sup>14</sup> The remainder of the \$100 billion was tied up in frozen or semiaccessible escrow accounts. As a result, the \$7 billion infusion into Iran's economy represents a 35 percent increase in Iran's fully accessible foreign exchange reserves.

#### THE PSYCHOLOGY OF SANCTIONS RELIEF

The \$7 billion in sanctions relief also does not account for the psychological impact that the Geneva deal and sanctions relief is having on markets, business, and investors. The impact of sanctions has always been as much psychological as it has been legal. The efficacy of sanctions is predicated upon a strategy of escalation, and a perception of high risk, where an ever-expanding web of restrictions effectively spooked foreign business from investing in, or trading with, Iran. Fear triumphed over greed as companies viewed Iran as an economic minefield.

Before November 24, 2013, when the framework agreement was signed in Geneva, even those who could conduct legitimate business with Iranian counterparts were hesitant to do so. Driven by fear of economic loss and legal sanctions, they viewed the risks as too high.

But the tide is now turning. Though many legal restrictions remain in place, greed is starting to overcome fear. Sanctions barriers, in key sectors of Iran's economy like energy, automotive, petrochemical, and aviation, have been significantly reduced or suspended. The White House has blocked new congressional sanctions legislation, sending a signal that it is no longer pursuing a strategy of sanctions escalation, at least for now. This creates a general impression abroad that the White House's resolve is waning, and that the risks of doing business with Iran are diminishing.

This impression has already improved the economic climate, resulting in some illegitimate deals as companies test the waters.<sup>15</sup> With the expectation of further sanctions relief soon, others businesses might now take risks they would not even contemplate as recently as 3 months ago. I discuss examples of both below.

The message from Washington is muddled: on the one hand the United States is releasing billions of dollars and lifting sanctions on key Iranian economic sectors. On the other hand, it is telling the business community that no one should rush back to Iran since the limited sanctions relief on offer is only for 6 months.<sup>16</sup> Despite these warnings, the JPOA itself contemplates a 12-month negotiating period. It also is not unreasonable to assume that, if more time is needed, the Obama administration could agree to further extend the diplomatic process for additional 6-month periods and offer additional sanctions relief to keep the Iranian Government at the table. As a result of this muddled message, businesses are looking to get back into the Iranian market ahead of their competitors in ways that may ultimately undermine the sanctions regime.

As a result of the current confusing environment created by the administration's policies, in order to maintain the efficacy of existing sanctions, Washington will have to sanction foreign sanctions-busters, even from P5+1 partners like Russia and China, our European allies, or key Middle Eastern countries such as Turkey. Already, as discussed below, companies from some these countries have challenged Washington's will to enforce existing sanctions.

## MARKET RECOVERY AND INVESTOR OUTLOOK

There has been an undeniable shift in market psychology, both among Iranian businesses and those companies looking to do business with Iran. The change in Iranian consumer and investor sentiment is reflected in Iran's economic performance as reflected in modest GDP growth, a marked increase in the value of Iran's currency, a significant drop in inflation, and a sharp increase in the value of Iran's stock exchange.

The Iranian economy has shown signs of modest growth and stabilization since Rouhani's election in June 2013. Indeed, Iran has been on a modest recovery path since its *annus horribilis* of 2012 and the first half of 2013, when the Iranian economy was hit with an asymmetric shock from sanctions targeting the Central Bank of Iran, Iranian oil exports, access to the SWIFT international banking system, the National Iranian Oil Company, shipping and insurance, key sectors of the Iranian economy, and precious metals, amongst others. The poor economic management of the Iranian economy by the Mahmoud Ahmadinejad government further exacerbated these sanctions-induced shocks.

Key economic indicators of Iran's economic malaise and their subsequent recovery are discussed below.

*Gross Domestic Product*

Iran's economy was hammered by tough sanctions measures through 2012 and early 2013. The World Bank estimates that Iran's GDP shrunk by 2.9 percent in 2012 and 1.5 percent in 2013.<sup>17</sup> Iran's current account balance as a percentage of GDP also dropped steeply from 2.8 percent to -0.9 percent as its oil revenues fell sharply.<sup>18</sup>

The Institute of International Finance, which draws on data released by the Central Bank of Iran, estimates that real Iranian GDP contracted 5.6 percent between April 2012 and March 2013, and nominal GDP fell to as low as \$381 billion.<sup>19</sup>

But, Iran's economy is starting to recover as the most significant effects of the sanctions imposed in 2012 and early 2013 have been absorbed. Although Iran's economy remains weak, it has begun to stabilize and adjust rather than deteriorate further. According to the World Bank's "Global Economic Prospects" report, Iran's real GDP is expected to grow by 1 percent in 2014, 1.8 percent in 2015, and another 2 percent in 2016.<sup>20</sup> Similarly, the International Monetary Fund estimates Iran's economy will grow by 1.28 percent and 1.98 percent in 2014 and 2015, respectively.<sup>21</sup>

While it is likely that a more competent economic team under Rouhani would have mitigated the severity of the impact of further sanctions, the new Iranian President and his team have benefited from a less difficult sanctions environment than their predecessor. Sanctions are de-escalating, direct sanctions relief is flowing, and new sanctions, at least for the next 12 months through the Geneva interim period, seem unlikely.

*Exchange Rate*

A key indicator of the economic climate in Iran, and overall investor and consumer confidence, is the value of the rial. The black-market rial exchange rate experienced a 3-year free fall from 10,440 to the dollar in January 2010 to a rate of 41,000 in October 2012, representing a loss of almost 75 percent. Since Rouhani's election, however, the black-market exchange rate increased from 36,300 on June 15, 2013 (election day) to 24,865 (as of January 29, 2014).<sup>22</sup> This represents a more than 46 percent increase in the value of the Iranian currency since Rouhani's election.

Since the announcement of the JPOA on November 24, 2013, the black-market exchange rate has increased from 29,300 to 24,865 (as of January 29, 2014), representing a 18 percent increase in value. Some experts, who see the rial as an important "weather vane" for the health of the Iranian economy, have now taken the rial off their list of "troubled currencies," while acknowledging, "Rouhani's economic progress in Iran is tentative and likely quite fragile."<sup>23</sup>

*Inflation*

Rouhani claims that his administration has brought down the inflation rate from 43 percent to 28.8 percent.<sup>24</sup> The Statistical Center of Iran recently announced that the official inflation rate for the 2013 calendar year was 35 percent,<sup>25</sup> down from the 40 percent official year-on-year inflation rate that Iran faced before the Geneva talks in November,<sup>26</sup> and a sharp drop from Iran's estimated 62 percent unofficial monthly inflation rate in October 2012.<sup>27</sup> On a quarterly annualized basis, inflation now has fallen to about 20 percent as a result of the stabilization in the rial.<sup>28</sup> The

significant reduction in Iran's punishing inflation rate is further evidence that Iran's economy may be stabilizing from the deep recession of 2012.<sup>29</sup>

#### *Tehran Stock Exchange*

Since Rouhani's election, there has also been a surge in the Tehran Stock Exchange (TSE), representing renewed investor confidence. The TSE index almost doubled from 45,000 to over 80,000 points.<sup>30</sup> After peaking at 89,000 at the beginning of January, the index has lost 7 percent and fallen to 81,905 by January 26,<sup>31</sup> although it appears too early to tell whether this drop indicates a renewed decline in investor confidence, a minor correction, or fear of corruption and insider trading. Another possible explanation for the modest drop is that the recent loosening of financial restrictions is providing Iranians with more investment opportunities, and so they are diversifying their portfolios and moving money elsewhere.<sup>32</sup>

#### *Trade Delegations and Future Investments*

As the market psychology shifts from fear to greed, companies that previously shied away from Iran are eyeing possible openings and re-openings. Companies that were afraid of the financial and reputational risks associated with doing business in Iran are reevaluating.

Since December 2013, Tehran has received trade delegations<sup>33</sup> and parliamentary missions from more than a dozen countries, all expressing interest in business opportunities in Iran. According to *The New York Times*, Iran hosted more European delegations in the first 2 weeks of 2014 than in all of 2013.<sup>34</sup> German companies, which exported around \$2 billion in goods to Iran in 2013, are looking to ramp up their Iranian activities along with their Dutch, Austrian, Italian, French, and other European competitors.<sup>35</sup> And on a visit to Tehran at the end of January, Turkish Prime Minister Recep Tayyip Erdogan pledged to increase bilateral trade to \$30 billion by 2015,<sup>36</sup> with a particular emphasis on increasing Turkish exports to rebalance a Turkish trade deficit with Iran valued at \$4 billion in the 12 months ending August 2013.

The Director General of Iran's Trade Promotion Organization, Mehrdad Jalalipour, noted a 70 percent increase in participation in trade fairs in October and November compared to the previous year.<sup>37</sup> Hotels throughout Tehran are reportedly "fully booked by businessmen from Germany, the U.K., [and] other European countries,"<sup>38</sup> notes Sarosh Zaiwalla, the London-based lawyer who represented Bank Mellat in its judicial challenge against EU sanctions. Chambers of Commerce are organizing seminars to help make connections and advance business with Iran.<sup>39</sup> While it will take some time for these activities to generate significant economic activity, they are paving the way for future Iranian growth.

#### *Sanctions Relief Case Study #1: Iran's Auto Sector*

The JPOA grants sanctions relief to Iran's embattled auto sector, the second-largest sector of the Iranian economy after energy. Prior to the imposition of U.S. sanctions, Iran's auto sector was a major source of export earnings, industrial production and assembly, employment, and GDP. Specifically, the auto sector employed some 700,000 Iranians, or 4 percent of the total Iranian workforce,<sup>40</sup> and accounted for about 10 percent of Iran's GDP,<sup>41</sup> or about \$50 billion.<sup>42</sup>

The U.S. imposed sanctions on the Iranian auto sector on June 3, 2013,<sup>43</sup> because of the dominant role played by Iran's Islamic Revolutionary Guard Corps (IRGC) in its control of Iran's major auto companies, Khodro, Saipa, and Bahman.<sup>44</sup> At the time, according to CBS News, Obama administration officials identified the auto sector as an important source of both revenues and dual-use equipment for the Iranian regime and its IRGC-controlled nuclear and ballistic missile programs.<sup>45</sup>

White House spokesman Jay Carney described the auto sanctions and other measures as, "part of President Obama's commitment to prevent Iran from acquiring a nuclear weapon, by raising the cost of Iran's defiance of the international community."<sup>46</sup>

The impact of these sanctions was significant. The imposition of automotive sanctions, the rapid increase in inflation, and the financial and economic sanctions that had already taken their toll, further hammered the sector. According to the *Washington Post*, auto production dropped by 40 percent, after its global ranking had already fallen from 13th to 21st in just 2 years.<sup>47</sup>

The decline was so dramatic that Iranian-born economist Mehrdad Emadi of the U.K.-based Betamatrix International Consultancy stated that the "sector has really been close to collapse because they haven't been able to import the latest capital equipment."<sup>48</sup>

Sanctions relief afforded by the JPOA could now reverse this rapid decline in both Iranian auto production and exports, alleviating pressure on the Iranian regime and the IRGC.

American sanctions on “Iran’s auto industry, as well as sanctions on associated services,” like insurance, transportation, and financial services, are being suspended, according to the JPOA.<sup>49</sup> The White House estimates that easing auto industry sanctions will yield Iran only \$500 million over the 6-month interim period.<sup>50</sup>

The \$500 million valuation appears to be derived from expected revenue from exports of Iranian cars. However, it does not account for the total impact of a revived auto sector on the Iranian economy, including cars produced for the domestic market, wages paid, and other economic activity.

Automotive sanctions have impacted much more than just Iranian export revenue. According to the Associated Press, these sanctions have led to “some 100,000 Iranian auto workers” being laid off, and plants running “at less than half their capacity.”<sup>51</sup> With Iranian auto companies reportedly unable to receive parts from their foreign suppliers, the Financial Times reported that Iran’s two largest state-run carmakers, Iran Khodro and Saipa, were “suffering from overstaffing—or ‘hidden unemployment,’ as the domestic media call it—due to the decline in output.”<sup>52</sup> In July 2013, an Iranian automotive representative noted that production units had been forced to lay off between 30 percent and 50 percent of their workforce.<sup>53</sup>

Sanctions relief, then, is likely to generate direct economic value for the Iranian economy and billions in earnings for the blacklisted Revolutionary Guards. Any recovery in such a critical sector that recently generated about \$50 billion annually for Iran’s economy will have a multiplier effect on recovered jobs, wages paid, GDP growth, and improved investor and consumer confidence. Indeed, employment in the auto sector could prove to be the most politically visible form of sanctions relief for Rouhani, who has promised to revive Iran’s struggling economy.

The projected growth of the domestic Iranian auto sector is attracting significant interest from global auto manufacturers in returning to partnerships with Iranian auto companies. Shortly after the signing of the JPOA, Iran held an international automotive conference attended by representatives from German, Indian, Japanese, and South Korean auto companies.<sup>54</sup> As a result of the JPOA, press reports indicated that this conference garnered great interest.<sup>55</sup>

Global auto companies are now poised to reenter Iran and renew business relationships.<sup>56</sup> Major auto manufacturers that formerly invested in the Iranian auto sector, such as France’s PSA Peugeot Citroen and Renault SA, have expressed optimism that they will be able to reap significant benefits in the coming months. Indeed, Renault has already resumed shipments to Iran’s domestic auto company Iran Khodro, while both Renault and Peugeot Citroen are reportedly interested in resuming vehicle assembly and sales with local Iranian partners.<sup>57</sup>

These companies understand that Iran’s auto sector is poised to experience even greater growth on the horizon. An October study by the Boston Consulting Group assessed that Iran had the “theoretical potential to attain an impressive 1.5 million in new-vehicle sales by 2020, which would make it the third-largest Beyond BRIC market.”<sup>58</sup> Such production would be “on par with Canada’s 2012 car sales and well ahead of Italy’s,” according to Canada’s *Globe and Mail*.<sup>59</sup>

The White House could be correct that Iran’s auto sector will only generate \$500 million in revenue over the next 6 months. Export revenue growth may be limited by the existing sanctions that complicate international transactions. Growth could be further hindered by the slow ramp-up required in domestic production. And loopholes on insurance, transportation, and banking transactions could be closed by rigorous enforcement. More broadly, given the depreciation of the overall Iranian economy, it is highly unlikely that the auto sector could return soon to its peak levels, when it was contributing about \$50 billion in annual GDP to Iran’s overall economy.

But the suspension of automotive sanctions will undoubtedly generate additional economic benefits for Iran, beyond what was stipulated in the JPOA. It is inconceivable that the Iranian automotive sector will fail to contribute to increased GDP over the next 6 months through production, domestic sales, wages paid, and other economic activity beyond the administration’s estimate of \$500 million in export revenue.

Even if Iran’s auto sector contributed only 10 percent of the sector’s previous \$50 billion annual contribution in GDP to Iran’s overall economy, that would be worth \$2.5 billion in additional economic activity over the next 6 months. In this way, Washington may end up providing far greater economic benefits to the Iranian Government, and to the IRGC, than has been asserted.

#### *Sanctions Relief Case Study #2: Iran’s Petrochemical Sector*

The JPOA provides sanctions relief to Iran’s petrochemical sector. According to an August 2013 “Business Monitor International” report, Iran exported \$11.2 billion last year in petrochemical products, and it projects an increase of another \$1 billion

next year.<sup>60</sup> With the lifting of petrochemical sanctions, there is already renewed confidence in the sector. Since October 1, 2013, the market value of companies in this sector surged from \$25 billion to \$34 billion due to the gains on the Tehran Stock Exchange, the rial appreciation, and the suspension of U.S. sanctions.<sup>61</sup> Between the middle of October and the beginning of December, the sector grew nearly 40 percent, with a significant spike occurring after November 17 when the P5+1 first appeared to be close to signing an interim deal with Iran.<sup>62</sup>

While an increase in the market valuations of these companies doesn't necessarily mean an increase in real economic activity, and they could face reversals, it does suggest increased investor and consumer confidence in a sector that, by the volume of total production, grew by 22 percent for 2 years in a row between 2011 and 2013 and is projected to grow by almost 10 percent between 2013 and 2014 and by 10.6 percent between 2014 and 2015.<sup>63</sup> In fact Iranian customs data shows that even before the JPOA, petrochemicals were the largest of Iran's nonoil exports in dollar terms.

Growth in Iran's petrochemical sector is particularly problematic because the largest companies in the industry are owned or controlled by Iran's Islamic Revolutionary Guards Corps (IRGC), the Iran Government, and the Supreme Leader.<sup>64</sup> In fact, of the 14 petrochemical companies that had been sanctioned but are now permitted to do business abroad, Iran's Supreme Leader Ali Khamenei controls three through his Setad business empire.<sup>65</sup> The IRGC is the second-largest shareholder in the industry after the Iranian Government itself.<sup>66</sup>

#### *Sanctions Relief Case Study #3: Iran's Oil Exports*

Iran's oil exports have rebounded nearly 60 percent from historic lows of 761,000 bpd in October 2013, to 1.2 million bpd in January 2014.<sup>67</sup> This should be of particular concern to this committee, given its involvement in congressionally mandated oil market sanctions against Iran.

The JPOA suspended U.S. oil sanctions, which required current Iran customers to significantly reduce their Iranian oil purchases to qualify for an exception to sanctions. Instead, the JPOA allows oil sales at current levels, which had already flatlined at around 1 to 1.2 million barrels per day (bpd). This suspension is taking pressure off Iran's oil sector, which had been close to running out of storage capacity for its production surplus and was in danger of incurring irreparable losses stemming from the forced closure of oil fields if further reductions were enforced.

The \$7 billion in sanctions relief valuation does not include the value of this suspension of U.S. oil sanctions over the next 6 months. FDD estimates that this concession is worth between \$4.5 and \$5 billion in oil revenue that Iran would have otherwise lost had the significant reduction sanctions continued to be enforced.<sup>68</sup>

Technically, this money would be required to be paid into largely restricted escrow accounts, only available to Tehran to fund bilateral trade with its oil buyers. However, recent revelations from Turkey raise questions about how airtight these restrictions really are. The Turkey-Iran "gas-for-gold scandal" (discussed below) revealed how Iran was able to circumvent these restrictions to access billions of dollars through middlemen and allegedly corrupt Turkish officials.

The \$4.5 to \$5 billion in projected oil revenue noted above also does not include the real possibility that Iran will successfully circumvent the remaining oil sanctions by selling additional crude under the table. In fact, Rouhani's 2014 budget, which he recently submitted to Iran's Parliament, is based on the assumption that Iran will sell 1.5 million bpd or approximately twice October 2013 levels.<sup>69</sup>

Additionally, Iran is likely to benefit from sanctions relief in related sectors. Under the Geneva agreement, Iran also benefits from regaining access to affordable insurance policies for the transportation of its oil and other goods.<sup>70</sup> Insurance premiums on legal shipments will not only go down, but there also is a reasonable chance that Iran will manage to insure more than it is allowed to export.

The reduced transaction costs may lead to additional boosts in exports, or at least reduce the oil price discount that Iran had to offer and the insurance premiums that Iran had to pay to sell its crude. The suspension of shipping and insurance sanctions also means that Iran now can cease to rely on foreign-owned vessels to transport goods, freeing up shipping capacity to deliver its oil.

#### *Sanctions Relief Case Study #4: Iran's Financial Sector*

The JPOA's relaxation of specific sanctions related to specific financial services is of particular value to Iran. Although this provision of the JPOA is supposed to benefit only "specified foreign banks and nondesignated Iranian banks,"<sup>71</sup> the IRGC, Supreme Leader Ali Khamenei, and the Iranian Government own at least 70 percent of the banking sector.<sup>72</sup> Sanctioned entities own many of the smaller banks not traded on the Tehran Stock Exchange.<sup>73</sup> This banking channel not only is likely to

boost trade, but also reopens a window into the international financial system that Iran had been denied through U.S., European, and U.N. sanctions.

Furthermore, the EU has authorized a tenfold increase in its authorized threshold—from €40,000 to €400,000—for transactions with banks in Iran.<sup>74</sup> Vigorous enforcement by the European Union as well as by the U.S. Treasury will be necessary to ensure that Iran does not exploit loopholes—as Tehran appears to have done with Turkey’s state-owned bank Halkbank, Turkish gold traders, and middlemen to access more than \$100 billion in an elaborate “gas-for-gold” scheme.<sup>75</sup>

*A Case Study in Sanction Enforcement Failure: Gas-for-Gold*<sup>76</sup>

Turkey’s Islamist government is being rocked by the most sweeping corruption scandal of its tenure. Roughly two dozen figures, including well-connected business tycoons and the sons of top government ministers, have been charged with a wide range of financial crimes. The charges ballooned into a full-blown crisis on December 25 when three ministers implicated in the scandal resigned,<sup>77</sup> with one making a dramatic call for Prime Minister Recep Tayyip Erdogan to step down.<sup>78</sup>

The drama surrounding two personalities was particularly notable: Police reportedly discovered shoeboxes containing \$4.5 million in the home of Suleyman Aslan,<sup>79</sup> the CEO of state-owned Halkbank. Authorities also arrested Reza Zarrab,<sup>80</sup> an Iranian businessman who primarily deals in the gold trade, and who allegedly oversaw deals worth almost \$10 billion last year alone.<sup>81</sup>

The gold trade has long been at the center of controversial financial ties between Halkbank and Iran. Research conducted in May 2013 by the Foundation for Defense of Democracies and Roubini Global Economics revealed the bank exploited a “golden loophole” in the U.S.-led financial sanctions regime designed to curb Iran’s nuclear ambitions.<sup>82</sup>

The scheme was elaborate, yet straightforward. The Turks exported some \$13 billion of gold to Tehran directly, or through the UAE, between March 2012 and July 2013. In return, the Turks received Iranian natural gas and oil. But because sanctions prevented Iran from getting paid in dollars or euros, the Turks allowed Tehran to buy gold with their Turkish lira—and that gold found its way back to Iranian coffers.

This “gas-for-gold” scheme allowed the Iranians to replenish their dwindling foreign exchange reserves, which had been hit hard by the international sanctions placed on their banking system. It was puzzling that Ankara allowed this to continue: The Turks—NATO allies who have assured Washington that they oppose Iran’s military-nuclear program—brazenly conducted these massive gold transactions even after the Obama administration tightened sanctions on Iran’s precious metals trade in July 2012.<sup>83</sup>

Turkey, however, chose to exploit a loophole that technically permitted the transfer of billions of dollars of gold to so-called “private” entities in Iran. Iranian Ambassador to Turkey Ali Reza Bickdeli recently praised Halkbank for its “smart management decisions in recent years [that] have played an important role in Iranian-Turkish relations.”<sup>84</sup> Halkbank insists that its role in these transactions was entirely legal.<sup>85</sup>

The U.S. Congress and President Obama closed this “golden loophole” in January 2013.<sup>86</sup> At the time, the Obama administration could have taken action against Halkbank, which processed these sanctions-busting transactions, using the sanctions already in place to cut the bank off from the U.S. financial system. Instead, the administration lobbied Congress to make sure the legislation that closed this loophole did not take effect for 6 months—effectively ensuring that the gold transactions continued apace until July 1. That helped Iran accrue billions of dollars more in gold, further undermining the sanctions regime.

In defending its decision not to enforce its own sanctions, the Obama administration insisted that Turkey only transferred gold to private Iranian citizens.<sup>87</sup> The administration argued that, as a result, this wasn’t an explicit violation of its Executive order.

In the 1-year period between July 2012, when the Executive order was issued, and July 2013, when the “golden loophole” was finally closed, the Obama administration’s nonenforcement of its own sanctions reportedly provided Iran with \$6 billion worth of gold. That windfall may have been an American olive branch to Iran—extended via Turkey—to persuade its leaders to continue backchannel negotiations<sup>88</sup> with the United States, which reportedly began as early as July 2012.<sup>89</sup> It could also have been a significant sweetener to the interim nuclear deal eventually reached at Geneva, which provided Iran with another \$7 billion in sanctions relief.

Indeed, why else would the administration have allowed the Turkish gold trade to continue for an extra 6 months, when Congress made clear its intent to shut it down? The ongoing corruption investigation in Turkey could provide a window into

some nagging questions about the gas-for-gold scheme. Indeed, it could help explain why the Turkish Government allowed Iran to stock up on gold while it was defiantly pursuing its illicit nuclear program—and whether or not the Obama administration could have done more to prevent it.

*Case Study on Sanctions Enforcement Challenge: Russian-Iranian Oil-for-Goods Deal*

With gas-for-gold in the rear view mirror, Moscow is now posing a similar challenge to the U.S. sanctions regime. Reuters recently revealed a lucrative and illegal oil-for-goods deal between Russia and Iran. The proposed deal, worth possibly \$1.5 billion per month or \$18 billion annually, would include Russian purchases of up to 500,000 bpd of Iranian oil—boosting Iranian exports by as much as 50 percent—in exchange for Russian equipment and goods.<sup>90</sup> The deal would ease further pressure on Iran's battered energy sector and at least partially restore Iran's access to oil customers with Russian help. And those sums don't include the potential for further Iranian-Russian illicit finance and sanction-busting schemes that the deal could provide, including the transfer of sanctioned nuclear, ballistic missile, and other military equipment to Tehran, and the establishment of Russian-Iranian financial channels to facilitate other illicit transactions.

The administration has denounced the proposed deal as contrary to the interim agreement and a violation of U.S. sanctions,<sup>91</sup> but will President Obama take on Vladimir Putin, on whom U.S. policy now depends to get both Tehran and Damascus to abandon their WMD programs? If Washington can't stop this deal, it could serve as a signal to other countries that the United States won't risk major diplomatic disputes at the expense of the sanctions regime.

As international companies test the waters in an environment of de-escalating sanctions pressure, the Obama administration may find itself facing the difficult choice of permitting sanctions-violations from Russia, China, Turkey, and other key partners and watching the sanctions' architecture unravel, or sanctioning companies from these countries, including our P5+1 partners, with the potential for severe diplomatic blowback.

THE IMPACT OF IRAN'S ECONOMIC RECOVERY ON NUCLEAR NEGOTIATIONS

The administration's dual policy of sanctions and negotiations with Iran has always been based on the idea that economic sanctions can provide leverage to get Iran to the negotiating table to reach a comprehensive nuclear deal that stops Iran's illicit military-nuclear program. Indeed, Secretary of State Kerry has attributed Iran's willingness to negotiate at Geneva to the intense pressure of international sanctions.<sup>92</sup>

It is a credit to the members of this committee and your colleagues in the House that the United States has the kind of strong, comprehensive sanctions in place that have persuaded Iran to come to the table. Over the objections of the Obama administration and others who argued that the sanctions against the Central Bank of Iran, measures to reduce Iran's crude oil exports, and sanctions to force SWIFT to expel Iranian banks, amongst others, were either unlikely to have an effect on Iran or were too drastic to consider, you and your colleagues understood that there was a smart way to craft these sanctions to provide Washington with enhanced negotiating leverage.

Yet, now there is significant evidence that Iran's economy is showing signs of stabilization and modest recovery. Whether due to the overall global economic recovery, better economic management by the Rouhani administration as compared to the Ahmadinejad administration, and/or changing market psychology because of sanctions relief, the result is that the United States may be losing the very leverage that brought Iran to the table.

I am concerned that the P5+1 sanctions relief in exchange for reversible nuclear concessions by Tehran will improve Iran's negotiating position and therefore lessen the pressure on the regime to come to a long-term, enforceable, negotiated solution. This increases the likelihood of a deal that does not adequately address Iran's illicit military-nuclear program, leaving Iran with the option, at a time of its choosing, to develop an Iranian nuclear weapon, or requiring the U.S. President or Israeli Prime Minister to use military force to forestall that possibility.

POLICY RECOMMENDATIONS

In order to preserve our negotiating leverage, the Obama administration will need to convince global companies that it is willing to defend the sanctions' architecture against violators and impose punitive measures, even against key allies and partners. This could quickly devolve into an untenable situation—putting stress on our



alliances, which could erode the leverage we hope to use to convince Iran to make significant reductions in its nuclear program.

Congress can support the administration's efforts to shore up our economic sanctions and our negotiating leverage by passing the Nuclear Weapon Free Iran Act "sanctions-in-waiting" legislation, which many members of this committee already support. The purpose of this legislation is to buttress the argument that Iran is not open for businesses, to clearly outline the conditions under which Iran will lose existing sanctions relief (and be hit with additional sanctions) during the interim period, and to establish broad parameters for what constitutes an acceptable nuclear deal.

The legislation is important to pass now, rather than after a collapse of talks, because it dangles a Sword of Damocles over international companies considering a return to Iran. It is a crucial instrument in preventing the shift in market psychology that already is beginning to create economic benefits for Iran. It lays down a clear deadline of 12 months for nuclear negotiations so that Iran does not endlessly prolong the negotiations while reaping further economic benefits as the passage of time weakens the existing sanctions regime and makes companies more confident to enter the Iranian market. And it lays down important parameters by Congress to govern what constitutes an acceptable final deal, including precluding Iran from achieving a nuclear weapons breakout capability and prevented it from pursuing both uranium and plutonium pathways to a nuclear weapon.

While Iran's Foreign Minister Javad Zarif has threatened to walk away from the table if Congress passes new legislation,<sup>93</sup> it is important to note that such a move would come with steep economic costs for Iran. A recent economic analysis by FDD and Roubini Global Economics estimates that new sanctions could precipitate a major economic shock that leads to a significant depreciation of Iran's currency, which will fuel inflation and asset bubbles, force fiscal austerity, and send Iran back into a deep recession.<sup>94</sup>

Iran's economy would risk further deterioration in the following areas:

(1) Iran would lose all of the sanctions relief promised under the JPOA, which is worth significantly more than \$7 billion.

(2) Oil exports would fall to 500,000 bpd, which would be a reduction of approximately 500,000 bpd from current levels, or a loss of about \$9 billion in revenues over 6 months.

(3) New sanctions would also hit Iran's fuel oil, natural gas, and condensates exports, which are valued at about \$1.6 billion per month as of May 2013.<sup>95</sup> This would be a further loss of \$9.6 billion in revenues.

(4) The accelerated depletion of revenues and reserves would likely precipitate another currency devaluation, as Iran runs out of reserves. This would fuel inflation, with recurrent asset bubbles and busts destabilizing the economy further.

(5) Wages would fall sharply in real terms as housing and cost of living expenditures continue to rise.

(6) A new recession would be likely. As output falls and the government cannot support further economic expansion, Tehran would need to cut government spending.

(7) Across-the-board cuts would become necessary in the development budget, just as Tehran implemented in 2012 in nonsalary current spending. Subsidy cuts would be likely in the top three high-income deciles of the Iranian economy.

(8) Oil income would remain limited to only bilateral arrangements, with most oil revenues effectively locked up by sanctions.

(9) Deficit funding through internal loans would be likely, as well as an attempt to use foreign exchange reserves and to loosen monetary policy, particularly if other deficit abatement tools don't work.

(10) With sanctions relief negated, there would be an estimated 50 percent decrease in annual petrochemical exports from about \$12 billion to \$6 billion. At minimum, Iran would lose the \$1 billion based on what the administration estimates Iran will earn in petrochemical sanctions relief over 6 months under the JPOA.

(11) Iran would also lose potential automotive sector sanctions relief, with a failure to make gains in exports, production, wages, GDP, and other key indicators. This includes a loss of the administration's projected \$500 million increase from auto sanctions relief over the next 6 months. As noted earlier, it could be far greater than that.

(12) Other strategic sectors would suffer as a result of new sanctions legislation. This includes engineering, construction, mining sectors, and others.

(13) Imports would decrease to \$25-\$30 billion from about \$40 billion, given budget and hard currency restrictions.

In other words, walking away from the negotiating table would carry significant costs for the Iranian regime. And the longer Iran stays away, the higher the economic costs. Zarif might walk away for show, but unless he and Rouhani believe that they can rescue the economy through nuclear escalation, their no-deal option is still less attractive economically than a negotiated settlement.

With the Obama administration opposing the new Senate and House legislation, Senators need to find some way to signal to markets and to Iran that Congress will not accept endless negotiations, the unraveling of the sanctions regime that took so long to establish, and a nuclear deal that does not stop Iran's nuclear weapons breakout capability. While the current legislation could be effective in reversing market psychology if the sanctions-in-waiting provisions were passed today, these sanctions may be insufficient in 6 to 12 months time if there is no conclusive nuclear agreement and if Iran is on the path to a sustained economic recovery.

There needs to be a serious and public discussion about what type of sanctions will be required at that point especially since, in areas not adequately addressed by the JPOA, Iran could gain 6 to 12 more months to advance the military-nuclear elements of its program through nuclear-weapon and ballistic missile research and development.<sup>96</sup> If there is no final agreement, and Tehran successfully uses the interim period to advance this work, it could move more quickly to a nuclear weapons breakout and Washington will have lost critical economic leverage.

At that point, we will need a complete financial and trade embargo implemented within weeks since Iranian nuclear physics will have far outpaced Western economic pressure.

As Robert Einhorn and Ken Pollack have argued, "we need to prepare for the possibility that no agreement will be reached and Iran will attempt to turn that eventuality to their advantage."<sup>97</sup> Congress needs to work with the Obama administration to develop that strategy. And those consultations need to begin immediately.

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#### End Notes

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The CHAIRMAN. Thank you, Mr. Dubowitz. I look forward to exploring with you both the value and the consequences of the sanction relief that I read in your testimony.

The committee will stand briefly in recess to conduct a business meeting in S-116, and then we will return immediately afterward.

And I thank this panel for their patience. It is an incredibly important topic, a lot of interest for the committee, and your testimony is incredibly important as part of the record.

So, the committee stands in recess, subject to the call of the Chair.

[Recess from 12:06 p.m. until 12:40 p.m.]

The CHAIRMAN. This hearing is reconvened.

Let me thank you both for your forbearance, and we appreciate your willingness to hang in there with us.

Let me start with you, Mr. Albright. You have a lot in your testimony that—I hope people will read the testimony. Some of it is technical in nature, and I plowed through it, you know, and—not an expert, but I plowed through it, made—

Mr. ALBRIGHT. I apologize.

The CHAIRMAN. No, no, not at all. On the contrary, I think it is incredibly important to understand. Because what a deal ends up being that we can support depends upon what it is.

So, let me ask you some questions to further elucidate the record and your testimony. Is there a way to significantly set the clock backward, using a metaphor, on Iran's nuclear weapons capability without closing Fordow or without significantly dismantling Iran's centrifuges?

Mr. ALBRIGHT. I do not believe so. I think it—at the heart of this is a need to significantly reduce their centrifuge program. And I think, with the Arak reactor being part of a plutonium route, you are really confronted with the need to shut that down. And again, it can be converted to something else, but it—the way it is designed, according to early Iranian declarations—I mean, we do not know the final detailed design; they have not provided that to the International Atomic Energy Agency yet. But, it is best configured to make weapon-grade plutonium, and you do not want Iran to have such a reactor.

The CHAIRMAN. And Iran could only have one enrichment site, the one at Natanz.

Mr. ALBRIGHT. Yes. And I think that—from our analysis, it eases the verification, and it removes a site that is not invincible, but gives Iran a sense that they can withstand a military strike and not have its—some number of centrifuges down that hole destroyed.

The CHAIRMAN. I had questioned why you would bury, deep in the mountain, an enrichment site if your purpose is for civilian nuclear energy.

Mr. ALBRIGHT. That is right. No, and there is a lot of suspicion that it was originally designed to be a site to make weapon-grade uranium.

The CHAIRMAN. Now, I spent some time with Secretary Sherman going over the elements of your testimony, and maybe you could help—for those who do not have all the nuances, help make, in laymen's terms, the—what you describe as the loophole for—I think, as your testimony describes—on Iran's ability to continue the development of these IR-2 centrifuges. What exactly does that mean, and why is that consequential?

Mr. ALBRIGHT. Well, one is—is that it is—the IR-2m is a centrifuge that is much more capable than the ones they have deployed, the IR-1—anywhere from three to five times more effective, and also it is more reliable. It is based on a German-designed

centrifuge that went via Pakistan to Iran, and then Iran modified it. But, it is—at its heart, it is a more reliable one than the IR-1. And so, during the interim deal, they are still able to run a production-scale cascade at the pilot plant at Natanz, and they can just learn to operate it better, work on its reliability, to further improve that, to gain confidence in running it in this cascade.

They will still need to deploy it in large numbers, and they have started to do that at the underground site. There are 1,000 deployed in six cascades. And they would still need to do that. So, they cannot finish, but they can make significant progress on continuing to develop this machine.

The CHAIRMAN. And one of the things you said in your testimony, it can further develop this particularly advanced centrifuge while hiding any results of its progress from the IAEA.

Mr. ALBRIGHT. Yes, and it is—a year or two ago, Iran told the IAEA it was going to start enriching in that machine, and depositing the enriched product into the product tanks, and the IAEA would—and everyone else—would know how well the machine works. They decided—they then, subsequently, announced they were not going to do that. And so, the IAEA is left, in a sense, somewhat blind about the capabilities of this machine. I mean, is it truly that great, or is it having problems? And so, the IAEA just does not know. I mean, I think the worry is that they are hiding the capability from the IAEA, so we just—no one knows, and that it is actually making progress.

The CHAIRMAN. Now, one of the—the importance of this element of the centrifuge is—is that, you say in your testimony, “At the end of the interim period, Iran is likely to be far better positioned to deploy reliable IR-2m centrifuges, which is this more advanced centrifuges, on a mass scale at its enrichment plants. And this gain, if there was to be no agreement, would allow Iran to make up for time lost more quickly.” You go on to say, “A centrifuge five to ten times more capable than the IR-1 centrifuge”—I assume those are the ones that they are using now—“would require five to ten times fewer centrifuges to make the same amount of weapon-grade uranium for nuclear weapons, allowing for much smaller facilities, fewer personnel, and procurement of less material. Centrifuge research and development could also lead to breakthroughs in materials or methods that would further strengthen a secret breakout effort and make both the implementation and verification of a comprehensive solution extremely difficult.”

Mr. ALBRIGHT. Yes. I mean, and when I say “five to ten times,” that is beyond the IR-2m, but they are working on such machines. At least they have stated that, in the past, to the international inspectors. And so, they want to have a machine that is up to ten times—ten times the output of the current-generation one. And those machines pose particular difficulties for verification. If you do, as you have stated, need far fewer of them, then you can get by with a much smaller facility. And particularly if you are developing the skill to make them and operate them, then you do have to worry about them. And it would be better that they not be developed. And I think that is our recommendation—

The CHAIRMAN. And your final conclusion of that is that, “Development of more advanced centrifuges would greatly ease its

ability”—meaning Iran—“to conduct a secret breakout to nuclear weapons.”

Mr. ALBRIGHT. That is right. If you only need, let us say, 1,000 of them to have the capability to enrich up to weapon-grade uranium, then you can use a much smaller facility. I mean, Fordow, the underground one, is sized for about 3,000 centrifuges. So, if you can reduce the number—and another thing that happens, as you learn to operate these more sophisticated machines, you are actually advancing your skills quite considerably, both in manufacturing and in operation. And so, the—and one of the problems the Iranians have faced with the IR-1s is just getting them to operate at a minimal level, and they have faced many breakages and had troubles getting the enriched uranium output up.

The CHAIRMAN. Now, two final questions to you. “During the interim period,” you state, “particularly with weakening sanctions, Iran can focus on building up its supply of essential goods and alleviating bottlenecks in certain key goods, allowing for a much more rapid expansion of its programs at the end of the interim period. These problems will grow the longer the interim period lasts.” And then you go on to say, “Delay works more in the favor of Iran than it does of the United States and its allies.” Can you explain why that is the case?

Mr. ALBRIGHT. Well, if—as they—they do need to go out and buy things. Examples would be carbon fiber. They need to buy pumps for the Arak reactor. They need to find maraging steel. There is a—and there is all kinds of vacuum-related equipment that they need to buy. And they now have an opportunity to continue that buying.

And again, sanctions and laws are designed to try to stop them, but they have proven to be less effective than, I think, we at ISIS thought they would be. I mean, Iranians are very good at smuggling, and they—and while their—many of their efforts are stopped—there is interdictions of their goods—things are getting through. And now they have this additional period to continue this, and it is one of the—and what they can do is develop a stockpile of materials that then would allow them to build many more machines. That is the bottom line, is if they can stockpile, they can then, if the deal breaks down, build a lot more. And it is also why we think, in recommending the—in the comprehensive solution, that Iran commit not to do this anymore, that they have to give up these smuggling operations that they have mounted so effectively.

The CHAIRMAN. Mr. Dubowitz, I have questions for you, but I am going to turn to Senator Corker, because I know he has time constraints, and then I will come back.

Senator CORKER. I want to thank you both. And I agree with the chairman, I think your testimony today is—both in written form and orally—is outstanding. I wish everybody on the committee could hear it and, candidly, help the administration, as someone paying attention.

But, Mr. Albright, I will start with you, since you testified first. What is our current capability to detect if Iran is enriching in a warehouse someplace that we are unaware of?

Mr. ALBRIGHT. Well, the U.S. intelligence, despite some recent reports in the media, is pretty good on Iran. I mean, it has found

the Fordow site, and it—with its allies. I mean, it is a combined effort. It identified sites in the early 2000. And so, it is—and it has been willing to work with the international inspectors, so you can have people on the ground using intelligence information. And so, it is pretty good. But, it is not perfect, and there is worry that, if Iran built a secret centrifuge site, it could go undetected. And the current arrangement with the inspectors right now, while better, is not enough in order for the IAEA to say they can tell you that they can find a secret site. So, there remains a risk. And that is another reason why you want the interim deal to be short-lived and to try to get a comprehensive solution, where the verification arrangements are put in place that, combined with Western intelligence, can provide much greater assurance that there is no secret nuclear site.

Senator CORKER. And based on the way these negotiations have begun, and looking at the public comments that the P5+1 and Iran are making, and just looking through what has occurred, what do you think is, today, the likely outcome on July the 20th?

Mr. ALBRIGHT. Well, I think it—after we released our report, a couple of weeks ago, I must say that I cannot be very optimistic. Iranian statements are pretty clear. I think you quoted some of them. They appear unwilling to accept the deep cuts in their centrifuge program that I think are necessary. I mean, maybe they will give up or allow the Arak reactor to be converted into another type. Maybe they will even shut down Fordow. But, I think getting them to reduce the number of centrifuges is going to be very tough.

I think the military-dimension side of this is going to be tough. Iran has—resisting greatly allowing the inspectors to go to Parchin, and they—and, in a sense, Iran has dug itself a very deep hole. And so, I think that is going to be a tough issue to surmount. And I think, in that case—I did appreciate, in the legislation that you produced, that there was a condition put in that Iran is going to have to satisfy the IAEA's concern on past and possibly ongoing military issues. I think the administration has said, in private settings, that there will be no comprehensive solution unless they satisfy—Iran satisfies the IAEA. But, one would like to see that as a firm written statement from the administration.

Senator CORKER. And do you agree with Mr. Dubowitz that, as we move along and the economy improves and the indicators that we now see there makes it even more difficult for us to have leverage to cause them to—to cause us, as a country, and many others, to overcome where they are? Do you agree with that?

Mr. DUBOWITZ. I do.

Senator CORKER. Mr. Albright.

Mr. DUBOWITZ. Oh, I am sorry.

Senator CORKER. Yes.

Do you agree with the comments your colleague has made relative to—

Mr. ALBRIGHT. On the—

Senator CORKER. That is right.

Mr. ALBRIGHT. Yes. I certainly worry that—another reason, in my mind, where you want an interim period—is as short as possible, with clear consequences on Iran if that period elapses. So, I think the—now, we will have to see. I mean, I—again, we are not—



at ISIS, we are not economics specialists, by any means, we are not sanctions experts. So, I am just offering that.

Senator CORKER. Mr. Dubowitz, you have talked, both orally today, written testimony—I know we had a long meeting with you yesterday. What do you think the effect of passing the legislation Menendez and Kirk have offered, and many have signed on to—what would the effect of that be, relative to their economy today?

Mr. DUBOWITZ. Well, Senator Corker, I think the legislation had, as its intent, to send a credible threat, to international markets, that it is premature to go back into Iran, and that if Iran does not satisfy the interim conditions, if it cheats on the JPOA, if it fires off long-range ballistic missiles, if it launches terrorist attacks against America, that all that sanctions relief would be gone, and new sanctions would be imposed on Iran.

And I think—most importantly, I think it sent a very clear message that this will not be an endless process of negotiations, that there is a 12-month clock on this. And at the end of those 12 months, Iran has got to come to a comprehensive nuclear deal that satisfies very clear parameters and principles that were laid out in the legislation. Not deal terms. It does not specify how many centrifuges Iran should be left with. But, it has very clear end-state parameters.

And I think that is an important message to send to the international business community and to the investors and consumers in Iran, that, at the end of the 12-month period, if there is no comprehensive, conclusive deal, then the sanctions will be imposed. I think that had the legislation been passed, that it would have given a lot of credibility to that threat.

My fear is—as expressed in my testimony, is, without that credible threat, we are going to start to see the macroeconomic data shifting in Iran's favor. And I think it already has. It is modest. It is fragile. But, it is also real. And, by the end of 12 months, if that economic recovery has become much more substantial, then I think there is far less pressure on Iran to negotiate. And then, my ultimate fear is raised, which is, I think both the administration and Iran want to actually keep perpetually rolling over this deal for additional 6- to 12-month periods. I think it satisfies, potentially, objectives on both sides. And I think there is a great risk in doing that, because I think the Iranians will then gain even more economic leverage as their recovery increases.

Senator CORKER. Mr. Chairman, my staff is about to have a heart attack because I need to be someplace else. But, if I could ask a question that—

The CHAIRMAN. Of course.

Senator CORKER [continuing]. He can answer for the record, I would appreciate it.

You know, we have seen what happened in Turkey with the gold-for-oil situation. We now see, it looks like, almost a copycat kind of effort taking place or being proposed by Russia right now. Is it your sense that the Treasury Department—that this was an oversight? Or, do you think this was an accommodation, relative to the negotiations that were taking place?

Mr. DUBOWITZ. Well, Senator Corker, I have the absolute greatest respect for Under Secretary Cohen and his sanctions team at

Treasury. I think they have done, you know, herculean work in helping to enforce the sanctions that Congress has put in place. I think that there were, potentially, other considerations—considerations that the State Department and the White House had—in not cracking down on what was clearly an illicit financial money-laundering scheme, that it has—it, purportedly, has yielded Iran over \$100 billion. And, you know, it is a long and complicated saga, about what happened and how the administration responded and provided “Golden Loopholes” that were ultimately not closed until Congress finally closed it, and then the administration insisted that there be an additional 6 months before those precious-metals sanctions came into effect. I think it had a lot to do with the secret negotiations that were taking place with Iran. It had a lot to do with having gold sanctions relief on the table at ALMATY in February and April.

But, the conclusion of the long saga is that Iran was able to exploit a significant “Golden Loophole,” was able to get about \$13 billion in gold and over \$100 billion in illicit financial transfers, and ultimately blow a major hole in the international financial sanctions regime. I think we did not crack down on Turkey, and perhaps that is because of President Obama’s partnership with Prime Minister Erdogan.

My fear is that, on the Iran-Russia deal, we are going to face the same situation. And, despite Under Secretary Sherman’s assurances that everybody has read the riot act to Vladimir Putin, I am a little concerned that Putin is not necessarily deterred by administration riot acts.

Senator CORKER. Not to be too pejorative, but I think it is pretty understood that the administration has tied its future, so many areas, to its relationship with Russia that it really is difficult to sense, or even feel, that they would crack down on this in the appropriate way. But, I hope they will. And I appreciate your testimony.

Mr. Chairman, thank you for this great hearing today.

The CHAIRMAN. Thank you, Senator Corker, for your work and your participation in helping us prepare it.

Let me just finish off with you, Mr. Albright, to help us define, for the record, what a verifiable, long-term deal—the elements of that—what it would be to ensure that Iran does not have nuclear-weapon capability.

Mr. ALBRIGHT. Well, it—I think it is a fairly long list of provisions, so let me try to summarize.

The—talked about the Arak reactor needs to shut down. There are also—I think, even before that, there—you have to have commitments from Iran not to reprocess or separate plutonium, and not to build facilities capable of doing that. So, it is—even if the reactors—Arak reactor is shut down, that is not enough, by itself.

You also do not want to Iran ever again enriching above 5 percent, that it would just be—it would be limited to the types of fuel used in civil nuclear reactors or power reactors.

I have mentioned the one about procurement of goods illicitly. The centrifuge—and also the one site—enrichment site. I mean, centrifuge R&D is going to be important in the—again, these would be conditions imposed for a certain duration. We are recommending

20 years. But, you would want to limit centrifuge R&D to, essentially, models no greater than the IR-2m. I think you would not want to stop that one, necessarily.

You need to limit centrifuge component manufacturing. And so, if you reduce the size of the centrifuge program significantly, you are going to have a lot of spares. I mean, some would be set aside and stored, and then could be used later as spares. So, Iran would not need to make any more of these IR-1 centrifuges ever again. And even on the IR-2m, if they then subsequently deployed those under this cap of an—on the size of enrichment, they would even have some spares there. And so, you would limit that part of the program.

One of the issues is the size of the low-enriched uranium stockpiles, that one of the things the interim deal does is, it moves, let us say, near-20-percent LEU hexafluoride into another chemical form, and puts it in a different category, the oxide form. And under the interim deal, that is seen as okay. But, the problem is, in the long-term deal, you can take that material and reconvert it into fluorine, and so, you do not want Iran holding very significant stocks of that type of LEU. And so, you would also want to cap that, and Iran would give up, blend down, send out of country, or whatever, a significant part of its near-20-percent LEU oxide stockpile.

You also want to get, in terms of their—you want to have more controls over the uranium mining and milling operations, where the—again, this is more verification, but the—Iran would be much more open about how much is made very year, and where it goes.

And then, in addition to verification, you would impose a cap that—you do not want Iran mining more uranium than it could possibly use. And so, the limits on the uranium mining would be consistent with the centrifuge program that is allowed.

You need conditions from Iran not to proliferate. I mean, there are worries about Iran working with North Korea to bypass some of these caps. And so, you would want to have some commitments by Iran not to do that.

And then—and let me just end on the verification. The additional protocols is a marvelous improvement in verification for the International Atomic Energy Agency. It does not change their rights, but it gives them many more tools, and gets upfront agreements from the nations to allow things. But, it has been learned, in the case of Iran, that it is just not enough. With a country that has successfully deceived the IAEA for many years, has refused to cooperate, that many more conditions, or several more conditions, are going to be needed to be imposed. And some of those would be that they—the IAEA would have greater access to the centrifuge manufacturing complex that remained, that the—right now, it—under the interim deal, it can see the—where rotors are made, rotor tubes are made, and where centrifuges are assembled. You would want that. But, even in that case, you would want to know how many rotor tubes have been made, how many raw materials have been procured for those—

The CHAIRMAN. So, it is a pretty and extensive and invasive list of—

Mr. ALBRIGHT. Yes, it has to be. I think that is—that is the lesson of the suspension period.

The CHAIRMAN. What drives me to concern is the gulf between the list that you and the Institute have devised and others have also said—Dennis Ross, in his article, for example—and the gulf between that and everything that we hear in Iran, in which President Rouhani says, “No, we are not going to destroy it.” Now, maybe that is a maximalist position, as Secretary Sherman said, but there is a huge difference between where these two parties are at. And certainly, what—from the West’s perspective—P5+1—will be absolutely necessary to have a deal that is verifiable and that can be embraced.

Mr. ALBRIGHT. No, that is right. And the—and it also—I think it—I think we have to plan for the deal not working or the negotiations to fail. I mean, President Obama gave it—50–50 chance. The Iranians gave it less of a chance. I mean, administration officials below the President have given it pretty low chance of success. So, I think—if that is the true picture, then I think we do have to start putting in place some real plans for failure. And what will happen then—and it may turn out that it will incentivize—or give the Iranians an incentive to compromise more.

The CHAIRMAN. Well, that brings me to you, finally, Mr. Dubowitz. And I appreciated your work and your insights over time.

You know, first of all, let us talk about the real value of the sanctions relief that is being pursued under the Joint Plan of Action. You have suggested, both in your oral and further in your—extensively in your written testimony—that it is beyond \$7 billion. Talk a little bit about the \$7 billion in the context of what was Iran’s actual available cash reserve, versus its ultimate cash reserve.

Mr. DUBOWITZ. Well, thank you, Chairman Menendez.

I mean, I think, first of all, the \$7 billion is not insignificant. I mentioned that, according to our sources, Iran only had \$20 billion in fully accessible foreign exchange reserves, and much of the money was available—was actually locked up or was in escrow accounts, but they had \$20 billion that they could fully access. So, you are infusing \$7 billion into 20. You are increasing their fully accessible reserves by 35 percent.

The second issue—and it has really been puzzling for me—I have not understood why the administration came out and refused to acknowledge that there would be some shift in market psychology, that investor and consumer sentiment may increase, that there may be some illicit deals done with Russia or Turkey or other countries, and that the sanctions relief may be more than \$7 billion, based on a shift in economic activity, market sentiment. I think that the administration could easily have acknowledged that, could easily have said to Congress, “Look, it is possible this is more than \$7 billion; it may be actually significantly more than \$7 billion. We will do our best to ensure that it is as little as possible.”

What it leads me to believe—and this is where I get worried—is that the administration actually understands the sanctions relief was significantly more than \$7 billion, but that their theory of the case is that they are trying to get President Rouhani hooked on cash. And what I mean by that is that they are trying to create an economic incentive for Rouhani to compromise, and that they believe that the Iranian people will demand it, that we will strengthen Rouhani’s hand, and that, therefore, he will have more

leverage with the Supreme Leader to negotiate a deal within 6 to 12 months; and that when we start to see the macroeconomic indicators begin to turn in Iran's favor—and they already are turning in Iran's favor—that the administration will come back to you, in 3 to 6 months, and say, “Chairman Menendez, we actually think it is a good thing. We understand that the inflation rate is down, that the rial-dollar exchange rate is to Iran's advantage, that the GDP is starting to increase, that the auto sector is starting to recover. All of that, we did not anticipate, but now we acknowledge. And actually, that is a good thing, because it is now incentivizing Iran to do a deal.”

The CHAIRMAN. Yes. We heard a little bit of that also in, I think, Secretary Sherman's response to—I think it was Senator Murphy—that she called it, “In a perverse sense, that these trade missions actually incentivize the regime”——

Mr. DUBOWITZ. Right.

The CHAIRMAN [continuing]. “To think about what could be.”

I look at two sectors that you talked about extensively in your testimony, the automotive sector and the petrochemical sector. It is interesting that relief to the petrochemical sector actually helps the Ayatollah receive money directly through his control of Setad, which is a conglomerate totally controlled by the Ayatollah and for which they have several investments in petrochemical sites. Is that a fair statement?

Mr. DUBOWITZ. Yes. I mean, perhaps we are trying to get the Supreme Leader hooked on cash, as well, because if—maybe if his holdings in the petrochemical companies that are trading on the Tehran stock exchange increase in value, then he will start to see economic benefit.

I mean, what I find puzzling about the sanctions relief that has been provided is that what we have done is, we have provided relief on key sectors of the Iranian economy. You know, I and others had recommended that, if we were going to provide any relief, it should have been strictly through the return of some frozen oil revenues, not to Iran, but to be put in other accounts, where the Iranians could spend that money in Europe, for example. But, instead, what the administration has done is that they have lifted sanctions on some of the most lucrative sectors of Iran's economy, including sectors, as you have acknowledged, controlled by the Ayatollah, controlled by the Revolutionary Guards.

The CHAIRMAN. And, in doing so, obviously, to the extent that they are opening those sectors, it is legitimate for the private sector to say, “Well, at least for this period of time, we can be engaged in these sectors, because they are now no longer subject to sanction.” And is it not fair to say that, when the administration has tried to quantify the value, that presumes 6 months of relief for value based upon what those sectors provided prior to the sanctions, not an enlargement? If I were Iran, I would put the pedal to the metal and try to maximize the petrochemical and auto sector during this period of time so that I could actually get better benefits and increase the parts available to me, so that, in fact, I can move the ball forward, should an agreement not be achieved. Is that a fair——

Mr. DUBOWITZ. Well, that is exactly right. I mean—and I think—you know, again, what I find puzzling is that—let us take the auto sector. The administration values the auto sector relief of \$500 million, on the assumption that Iran will now be able to sell \$500 million more cars—export \$500 million more in cars. Well, if you look at the Iranian auto sector in 2011, it represented about 10 percent of Iran's total GDP, and it contributed \$50 billion to Iran's economy. Because the secret about Iran's auto sector is not—it is not a—it does not have huge export potential; it has huge domestic potential. It is a country of 75 million people who want to replace their cars. And Peugeot and Renault and major international and—auto companies, who, by the way, were in Tehran 2 days after the Geneva agreement was signed, recognize that enormous potential for the auto sector.

And so, what I believe Rouhani has done is, he has bought himself not only something that has tremendous economic potency, but political potency, as well, where he can represent himself as the man who saved the Iranian auto sector. And if you look at the potential for domestic auto production, for wages paid, for GDP actually generated, you have, over the next 6 to 12 months, more significant potential in the auto sector than I believe the administration is acknowledging.

The other, I think, concern that I have is—you heard Under Secretary Cohen say that they have essentially said to international businesses, “You have got to have your deal done in 6 months—goods delivered, payment made within 6 months.” And yet, you have Catherine Ashton acknowledging that this is actually going to be a 12-month deal. And the JPOA actually acknowledges that this can be renewed for an additional 6 months. So, if you are an international CEO, and you want to go back into Iran's auto sector, you are not thinking of this as a 6-month deal, you are thinking of this as a 12-month deal. You also are thinking you have got to get ahead of your competitors, so you need to get back in there. And so, you are starting to make those investment and business decisions, not only even based on a 6-month window or 12-month window, but you are probably assuming that the administration is going to renew this interim agreement for further periods of 6 or 12 months. And so, you have got the auto sanctions relief, and now your opportunity to exploit a market that the Boston Consulting Group says is the world's third most promising auto sector, after Indonesia and Mexico.

So, this is significant sanctions relief. Again, for nuclear concessions that is—as David Albright has said, may be important, but are also reversible and may not get to the heart of Iran's military nuclear program.

The CHAIRMAN. And finally, on oil relief, it seems to me—and one of the reasons that I did not want to continue, because I wanted to get to both of you—is that my understanding of the oil relief is that, actually, there can be a permission to purchase more than the latest reduction. Because what is going to happen is, there is going to be an averaging out or a means of the overall reductions over time. If that is the case, then not only is the amount of money underestimated by forgoing the additional 6 months of reductions that the law presently calls for, which are foregone, but you also

have an increase in the amount of purchase that would be permissible for those countries that have received exceptions. Because if you average it out, the lowest point being the present point, but a higher point at a different time, that means you are going to rise the amount of oil that you can purchase.

Mr. DUBOWITZ. Well, that is exactly right. I mean, there are some interesting indicators on where the oil issue may be going. First of all, President Rouhani has assumed, in his budget, that Iran will be exporting 1.5 million barrels per day. So, on the assumption that President Rouhani, if he is a better economic manager than his predecessor, is being conservative, you would assume that he has some expectation that, over the next 12 months, he is going to be able to export 1.5 million barrels per day.

The second interesting economic indicator is that Iran's oil exports in October were actually down to about 760,000 barrels a day. They have now recovered, in January, to about 1.2 million. And so, you are starting to see the "Geneva effect" already on Iran's oil exports as they begin to recover from 700,000 to over a million barrels.

And a third—

The CHAIRMAN. And do you—

Mr. DUBOWITZ [continuing]. The third issue, if I could just—

The CHAIRMAN. Go ahead.

Mr. DUBOWITZ [continuing]. Just quickly finish on this—and that is that, you know, your legislation closed a very important loophole that the Iranians have been exploiting, which allowed them to export \$1.6 billion a month in fuel oil and condensates. So, over the 6-month period of the Geneva agreement, because the legislation has not come into effect, Iran will earn \$9.6 billion in fuel oil and condensate revenue, in addition to what they are earning on the oil side.

So, in total, you have got an oil sector that I believe the Iranians have estimated is going to start to recover. These barrels are going to start to flow. And I think the net effect of this—and just to tie this into Dr. Albright's testimony, is—if we even get a comprehensive deal with Iran, what leverage do we have left to ensure verification and enforcement of that deal? We are putting a lot of faith in the IAEA, and even in the additional protocol.

You know, if you read the Pentagon's Defense Science Board report that was recently released, you see that our history of detection of breakout is not good. And the question is, Even if we do detect Iranian breakout, how do we enforce it? When the Iranians engage in what they always do, which is, they engage in incremental cheating on their nuclear program, are we going to have the tough sanctions still in place so that we can lower the economic boom in order to force them back into compliance? Or will we have traded away all our economic leverage so that we will have no enforcement mechanism left, beyond threatening military strikes every time the inspectors are not allowed into a facility? And I worry about that the administration has not done enough thinking, post deal, on what kind of enforcement mechanism we are going to retain to ensure that the Iranians continue to comply with their responsibilities.

The CHAIRMAN. And I think that is a critical question. When I looked at Director of Intelligence Clappers' statement before—I guess it was, the Intelligence Committee that he made the statement—that, in fact, Iran possesses, as we heard here, Secretary Sherman say, “ We have all the knowledge.” The question is, Have they made the decision to finally move forward toward nuclear weapons? Everything else is intact. So, if you have knowledge intact, and then if you have nuclear infrastructure intact, you are just steps away from when you make that decision of moving forward.

And, to the extent that Iran has arrested, if it has, itself for making that decision, it is only because of the consequences of sanctions that have been levied and enforced that have the Ayatollah thinking about regime change, not from without, but from within.

And, to the extent that that equation goes by the wayside, that there is no economic pressure to have the Ayatollah be concerned about regime change, which is his primary purpose—to preserve the regime, not to have it changed—then it changes, it seems to me, the Iranian equation as to their drive to strike the type of deal that we have defined here would be necessary. And that is a real concern.

And ultimately, if we do not have the extensive list that Dr. Albright has listed, and that I think others would agree to, then we will fall short the regime's—the sanctions regime will evaporate, and the only question for a future American President, if Iran, having still a infrastructure that is largely, I will say, mothballed—having the knowledge and then making the decision, there will be no sanctions—no time to enforce—to create—re-create an international order and have sanctions be able to be pursued. So, that equation will be off the table, and the only thing left for any President will be, “Do I accept a nuclear-armed Iran, and what that means to the whole—that whole part of the world, or do I have a military strike?” That is an unenviable position to be in when, in fact, we could be in a much better position.

I see, Dr. Albright, you were leaning to try to make a remark. I am not eliciting one, but if you have one, I am happy to entertain it.

Mr. ALBRIGHT. No, I agree with you. I am thinking about what you were saying. And I think the—I mean, it reinforces the need to both cut down the size of the program dramatically and increase the verification. And I think, in the cases that we have, that, when you have those two combinations, you can verify it. I mean, U.S. intelligence may fail. But, again, I would argue, it is Western intelligence, working together, and combined with the cutback and the very intrusive verification, can give you enough of a warning to provide sufficient time to mount a new effort. But, if in your case, you do not cut it back enough, then I would agree that that could be what a future President faces: accept it or go to war.

Mr. DUBOWITZ. But, Chairman Menendez, I mean, I think, to your point, you know, my concern is that the verification could be perfect, the detection could be perfect, but if you actually no longer have an option, beyond a military strike, then you are in exactly the situation you have described, which is a President—a future President who is in the position to choose between nuclear break-



out or a military response. I think what you have done, what your committee has done, what I think you are attempting to do with S. 1881, is, you are attempting to retain important economic leverage, which provides for a peaceful response to detection. It sends a message to the Supreme Leader that, "If you do try and cheat, and every time you do cheat, we are going to lower the economic hammer on you, and that is going to create the kind of domestic discontent that you are going to have to wrestle with and that may be a threat to your regime's survival."

Again, my fear is that, despite the best work of David Cohen and, you know, Peter Harrell and Amos Hochstein and all the folks at Treasury and State who are dedicated public servants who have done a tremendous job, that the market dynamics are shifting, that market psychology is changing, and that Rouhani and the Supreme Leader understand that they can continue to diminish the efficacy of our sanctions. Because, ultimately, greed drives markets. And if greed overrides fear, every company armed with a battery of lawyers, or an army of lawyers, is going to find a way back into Iran, despite the best assurances of David Cohen and others.

The CHAIRMAN. Well, with the thanks of the committee for both of your testimony and your work, we look forward to continuing to engage with you as we review the progress, or lack thereof, made in the days ahead.

The record will remain open until the close of business on Thursday.

And this hearing is adjourned.

[Whereupon, at 1:22 p.m., the hearing was adjourned.]

#### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

##### RESPONSES OF UNDER SECRETARY WENDY SHERMAN TO QUESTIONS SUBMITTED BY SENATOR ROBERT MENENDEZ

*Question.* Does the administration have an objective for re-setting the break-out clock for Iran's nuclear program? What specific steps are necessary to increase Iran's break-out time to 6 months? To 1 year? More than 1 year? Would Iran have to close the Fordow enrichment site? How many centrifuges would Iran need to dismantle?

*Answer.* We are focused on achieving a long-term comprehensive solution that resolves fully the international community's concerns regarding Iran's nuclear program, and verifiably ensures that Iran's nuclear program is exclusively peaceful and that Iran does not acquire a nuclear weapon. We have always been clear in our discussions with Iran that, as part of a comprehensive solution, Iran will be expected to place strict limits and constraints on its nuclear program. In particular, the JPOA specifies that the comprehensive solution would involve a "mutually defined enrichment programme with practical limits and transparency measures to ensure the peaceful nature of the programme." Moreover, addressing the long-term status of Fordow will be a priority in the negotiations for the long-term comprehensive solution. Under a comprehensive solution, Iran would also be subject to enhanced verification and monitoring measures to verify the exclusively peaceful nature of its nuclear program.

*Question.* What duration is necessary for the long-term monitoring and verification regime of any final comprehensive agreement? Given the extensive history of Iran's nuclear program isn't a minimum of 20 years necessary to assure the world Iran has given up its nuclear ambitions?

*Answer.* Any comprehensive solution would have to be of a long-term duration, address fully the international community's concerns regarding Iran's nuclear program, and ensure that Iran does not acquire a nuclear weapon. Iran would also be subject to enhanced verification and monitoring measures for the duration of the

comprehensive solution, which would provide verifiable assurances to the international community that Iran's nuclear activities will be exclusively peaceful.

*Question.* What proliferation risks remain if Arak is transformed into a light-water reactor? Is it possible to produce weapon-grade plutonium with a light water reactor? Over the last 30 years, we have seen a significant decline in the U.S share of the market and in our ability to promote national security objectives through peaceful nuclear cooperation. What are the principal reasons behind this decline?

*Answer.* The current design for the Arak heavy water research reactor raises a number of proliferation concerns. The reactor is designed to use natural uranium fuel, which the use of a heavy water moderator makes possible. This design is well-suited to the production of significant quantities of weapon-grade plutonium, and poorly suited to the reactor's stated purpose of producing medical isotopes. This is why the Joint Plan of Action requires that Iran make no further advances on the Arak reactor.

A light water research reactor fueled with low-enriched uranium will be more efficient for isotope production and less capable of producing weapons-grade plutonium. While any reactor can in principle be used to produce weapon-grade plutonium, a light-water reactor can be designed to make it harder to misuse the reactor to produce weapon-grade plutonium, and effective International Atomic Energy Agency safeguards can make such misuse relatively easy to detect.

In his April 2009 Prague address, President Obama said that we must develop "a new framework for civil nuclear cooperation, including an international fuel bank, so that countries can access peaceful power without increasing the risks of proliferation." Our commitment to that vision remains steadfast today. While we have seen a decline of the U.S. share in the global nuclear market, particularly given the emergence of several new suppliers, the United States is working to reinvigorate our nuclear industry to develop a new generation of safe, clean nuclear power plants in the United States. At the same time, we are working with our international partners to ensure that all countries in compliance with their international nuclear obligations can access nuclear energy for peaceful purposes in accordance with the highest standards of safety, security, and nonproliferation.

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RESPONSES OF UNDER SECRETARY WENDY SHERMAN TO QUESTIONS  
SUBMITTED BY SENATOR BOB CORKER

*Question.* Both you and President Obama have hinted at an endgame for negotiations that would leave Iran with a limited domestic enrichment capability, but as you describe it "with staggering constraints, monitoring, and verification," so that they cannot achieve nuclear breakout without detection.

- ◆ Please explain your goal for this final round of negotiations and what it means in terms of number of centrifuges, stockpiles, underground facilities and weaponization activities. In other words, what are the minimum criteria for success in this final round?
- ◆ What is your strategy to negotiate an endgame that brings Iran into compliance with six U.N. Security Council resolutions, which not only demand full and sustained suspension of enrichment but also prohibit Iran from undertaking "any activity related to ballistic missiles capable of delivering nuclear weapons, including launches using ballistic missile technology"? Would you accept anything less in a final deal?

*Answer.* We are focused on achieving a long-term comprehensive solution that resolves fully the international community's concerns regarding Iran's nuclear program and verifiably ensures that Iran's nuclear program is exclusively peaceful. We have always been clear in our discussions with Iran that, as part of a comprehensive solution, Iran will be expected to place strict limits and constraints on its nuclear program. Under a comprehensive solution, Iran would also be subject to enhanced verification and monitoring measures to verify the exclusively peaceful nature of its nuclear program.

Furthermore, as we prepare to begin negotiations on a long-term comprehensive solution, we have been clear Iran must address the United Nations Security Council (UNSC) resolutions related to its nuclear program as part of a comprehensive solution. Among the measures imposed on Iran, UNSC Resolution 1929 bans launches of ballistic missiles capable of delivering nuclear weapons, and thus this will be among the issues that must be dealt with in negotiations on a comprehensive solution.

*Question.* Some observers have commented that the administration's strategy is to get Rouhani "hooked on cash," so to speak, through sanctions relief, in order to entice him toward a final deal. Is this part of the administration's strategy? Please explain what evidence and logic supports this theory.

*Answer.* Over the past several years, U.S. and international sanctions have added substantial pressure on Iran's economy, which has also been buffeted by the Iranian Government's mismanaged economic policies. It is clear that sanctions incentivized Iran to come to the table and commit to important nuclear steps under the Joint Plan of Action (JPOA). Given that the sanctions relief we are providing is both modest and reversible—and unlikely to be sufficient to revitalize Iran's economy—the Iranians may be eager for more sanctions relief soon. After all, the \$7 billion of estimated relief is a drop in the bucket compared with what remains blocked around the world, what Iran needs each year to fund its imports, and what Iran needs to close its budget deficit.

If Iran is prepared to take the necessary steps that give us confidence that its nuclear program is entirely peaceful, then we are prepared, in consultation with Congress, to offer additional sanctions relief. But if the Iranians are unwilling to negotiate credibly toward a comprehensive solution, we will work with Congress to increase pressure.

*Question.* We all respect the enormous diplomatic challenge facing you and your team. Your EU counterpart, Catherine Ashton, said yesterday that you will take the necessary time to seal what will be an "extremely difficult" deal, even if that means extending the 6-month timeline.

- ◆ 1. Explain to us exactly what will happen in 6 months, on July 21, 2014, if you have not reached a comprehensive agreement.
- ◆ 2. If you renew the interim agreement by "mutual consent," what types of sanctions relief will you have to provide in order to keep Iran at the negotiating table, beyond what has already been granted?

*Answer.* The Joint Plan of Action expires 6 months from the January 20 implementation date. There is no automatic renewal or extension of the relief the P5+1 is providing to Iran. The plan can only be renewed by mutual consent. If the P5+1 agree to renew it, we would have to decide whether, and if, to provide additional relief. We want to ensure that the first step does not become the status quo, hence the tight timeline.

*Question.* The JPA describes a comprehensive agreement that will "comprehensively lift U.N. Security Council, multilateral and national nuclear-related sanctions."

- ◆ What is your definition of a nuclear-related sanction vs. a non-nuclear-related sanction?
- ◆ Given that you have exercised waivers of statutory sanctions to implement the interim deal, in order to comprehensively lift sanctions as part of a final deal, do you intend to come to Congress for legislative action vs. continually renewing your waivers?

*Answer.* We and our P5+1 partners are just beginning negotiations with Iran on a comprehensive solution. Thus it is premature at this stage to describe in detail the scope, timing, and nature of the sanctions relief that might be part of the comprehensive solution. The JPOA envisions comprehensive relief from nuclear-related sanctions, the context of which will be subject to negotiations. We have made clear that, for example, sanctions arising from Iran's designation as a state sponsor of international terrorism are not on the table. We are committed to remaining in touch with Congress as our approach to this matter develops.

*Question.* This weekend, the Iranian Supreme Leader's representative at the Islamic Revolution Guards Corps (IRGC), Ali Saeedi, boasted that Iran's borders now "have stretched to the Mediterranean coasts." How would a comprehensive nuclear agreement affect Iran's broader ambitions and the balance of power in the region?

*Answer.* Iran's senior military leadership frequently makes boastful statements about Iran's military capabilities and claims on territorial boundaries. We believe this to be one of them. The Joint Plan of Action does not alter our commitment to regional security, nor the security of our allies in the region. We entered these discussions clear-eyed about Iran's history and destabilizing activities in the region, and will continue to be vigilant going forward.

Per the Joint Plan of Action, Iran must address the U.N. Security Council resolutions related to its nuclear program before a comprehensive resolution can be

reached. Among other things, U.N. Security Council Resolution 1929 prohibits all activities involving ballistic missiles capable of delivering nuclear weapons.

*Question.* The JPOA “lays out basic elements of the comprehensive solution. Among other elements, the final step of a comprehensive solution would have a specified long-term duration to be agreed upon and reflect the rights and obligations of parties to the Non-Proliferation Treaty and IAEA Safeguards Agreements.” Some have suggested this amounts to a sunset clause for the comprehensive deal you are pursuing, after which point the Iranians will be able to expand the scope and size of their nuclear program.

- ◆ What is the “long-term duration” you are pursuing? In other words, how long will you demand that the Iranians abide by the terms of the comprehensive agreement?
- ◆ If nuclear expert David Albright has testified that the comprehensive solution should have conditions without a defined duration, and conditions that last at least 20 years, can the administration assure us that their “long-term duration” will meet these minimum criteria?

*Answer.* Any comprehensive solution would have to be of a long-term duration, address fully the international community’s concerns regarding Iran’s nuclear program, and ensure that Iran does not acquire a nuclear weapon. Iran would also be subject to enhanced verification and monitoring measures, which would provide verifiable assurances to the international community that Iran’s nuclear activities will be exclusively peaceful.

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RESPONSES OF UNDER SECRETARY DAVID COHEN TO QUESTIONS  
SUBMITTED BY SENATOR BOB CORKER

*Question.* The World Bank projects that, in addition to significant drops in inflation, Iran’s real GDP is expected to grow by 1.0 percent in 2014, 1.8 percent in 2015, and another 2.0 percent in 2016. This is in sharp contrast to the last 2 years where the Iranian GDP contracted by 1.5 percent in 2013 and 2.9 percent drop in 2012.

- ◆ a. How will Iran’s economic improvement affect the negotiations?

*Answer.* During the period covered by Joint Plan of Action (JPOA) between the P5+1 and Iran, the United States and its allies have retained negotiating leverage, because the vast majority of our sanctions have remained in place and Iran’s economy has not improved enough to quench Iran’s desire for further sanctions relief.

Although Iran has seen a slight improvement in a few economic indicators, the cumulative impact of sanctions on Iran’s oil, banking, financial, and energy sectors continue to place significant strains on the Iranian economy. Although the JPOA provided limited, temporary, and reversible relief, the most potent sanctions remain firmly in place and Iran’s economy remains under enormous pressure. Because of the continued economic pressure, revenues have remained significantly depressed and Iran has continued to struggle to finance its imports, fund government operations, and defend the value of its currency. The burden of our sanctions is a central factor motivating Iran to negotiate a serious and comprehensive solution to our concerns over their nuclear program. I remain firmly committed to vigorously enforcing these powerful sanctions as we attempt to negotiate a comprehensive solution with Iran.

Although the World Bank projects slight growth in the Iranian economy in coming years, it is important to put this into context. Iran is digging itself out of an economic hole because of international sanctions and the Iranian Government’s economic mismanagement. The Central Bank of Iran itself claimed that the Iranian economy contracted by nearly 7 percent during the Persian year ending in March 2013 and it contracted more than 3 percent in the first 9 months of the most recent Persian year. Any growth in the Iranian economy in future years will be from a greatly diminished base and will largely depend on the Iranian Government’s ability to weather the existing sanctions that remain in place, which is not certain.

- ◆ b. How are you measuring the effect of sanctions relief on Iran’s economic recovery?

*Answer.* We estimate that the sanctions relief contained in the JPOA would be about \$6 billion to \$7 billion. This includes (1) the \$4.2 billion in restricted Iranian funds that we are allowing Iran to access in installments until July; (2) the modest additional revenue Iran could get from exporting petrochemicals or autos during the JPOA period, although Iran has found it difficult to initiate new contracts given the short duration of the JPOA; and (3) the \$400 million we are enabling Iran to access from restricted funds for tuition payments.

Consistent with commitments in the JPOA, the United States has suspended efforts to press the few remaining countries that buy Iranian crude to further reduce their imports, and we continue to monitor Iran's oil exports to ensure that they do not increase. The funds that Iran is earning as a result of the pause on further reductions continue to be paid into accounts restricted by our sanctions, so it has not provided additional economic benefit to Iran.

Iran's purchase or sale of gold carries little economic value because we have not allowed Iran to buy gold using funds that remain restricted by our sanctions in overseas accounts. If Iran decides to use its much more limited accessible reserves to buy gold, this will simply represent the trading of one liquid asset for another, less liquid one.

Finally, the P5+1 has facilitated humanitarian transactions, medical payments incurred by Iranians abroad, and U.N. obligations. We have also expedited the processing of licenses for spare parts, safety inspections, and repairs for the safety of flight of Iranian civil passenger aircraft. Many of these activities, particularly humanitarian transactions, are already permitted by most United States and EU sanctions, so we expect the economic benefit to Iran is minimal.

Perhaps most importantly, the JPOA leaves the core architecture of our sanctions in place and does not deliver comprehensive relief. With our most potent sanctions intact, the United States is committed to enforcing existing sanctions on Iran's oil, banking, financial, and energy sectors as we pursue a comprehensive solution. The pressure we have put in place has caused the Iranian economy to massively underperform, and we will not ease up until a comprehensive solution is reached. Maintaining pressure on Iran helped bring about the JPOA and has been a critical component in the negotiations with Iran.

*Question.* Secretary Kerry has recently expressed his concern to Russian officials about reports that Iran and Russia are negotiating an oil-for-goods swap worth \$1.5 billion a month. You and your team are at the vanguard of holding the current sanctions regime together.

- ◆ a. Please describe in detail your efforts to prevent this deal as well as the message you are sending to foreign business delegations that are exploring business opportunities in Iran.

Answer. The administration has conveyed to the Russian Government at the highest levels and in the strongest possible terms our opposition to any potential commercial or financial activity that triggers our sanctions and falls outside the scope of the limited sanctions relief contemplated in the JPOA. We have also told the Russian Government that an oil-for-goods swap could trigger U.S. sanctions against any Russian company or financial institution connected with this proposed deal.

More broadly, my colleagues and I have traveled the world to send the message to foreign companies that Iran is not open for business. Our message to foreign companies and financial institutions is simple: We are prepared to act against anyone, anywhere, who engages in sanctionable economic activity outside of the scope of relief provided pursuant to the JPOA. As President Obama said on February 11, we will fully enforce our existing sanctions for the duration of the JPOA and will "come down like a ton of bricks" on those that engage in sanctionable economic activity outside the confines of the JPOA.

- ◆ b. Will you commit to enforcing sanctions on Russia should this deal come to fruition?

Answer. No country or entity is off limits for sanctions enforcement. The administration has told the Russian Government at the highest levels that we are prepared to act against those involved in sanctionable conduct. We demonstrated our resolve to act against entities in Russia that violate our sanctions when we reached a \$9.5 million settlement with the Bank of Moscow in January to settle potential civil liability for transfers it sent to or through U.S. banks for, or on behalf of, Bank Melli Iran ZAO, a sanctioned entity. Our enforcement actions and designations against those that engage in sanctionable conduct clearly signal our willingness to take action and should deter Russian and other entities from engaging in sanctionable activities.

*Question.* How much economic value would you assign to changing market expectations in Iran? Do you consider the following evidence of increasing market optimism—businesses flooding into Tehran, reports of foreign companies exploring the Iranian market, Renault resuming shipments to Iran for vehicle assembly, agreements made between Iran and Turkey on economic, cultural, political, trade, banking, and customs cooperation?

Answer. Positive market sentiment in Iran will be short-lived and of negligible value absent further sanctions relief, which we will not provide unless Iran reaches a comprehensive solution with the P5+1 that ensures its nuclear program is exclusively peaceful.

Any improvement in the market expectations for Iran—which predated the JPOA and likely stemmed from the election of President Rouhani—will not fix the fundamentals of the Iranian economy. Iran is in a deep economic hole because of our sanctions and its government’s economic mismanagement. The continuing impact of the sanctions that remain in place is powerful. Pursuant to the JPOA, Iran will only receive limited sanctions relief estimated to be worth about \$6 billion to \$7 billion. With Iran’s economy valued at about \$480 billion, and the overwhelming majority of sanctions remaining in place, this relief will not provide the boost Iran needs to achieve significant economic growth.

The Iranian Government is intensely focused on changing the narrative about the risks associated with doing business in Iran. To counteract Iran’s attempts to derive economic gains by attracting foreign investment and new commercial opportunities, I have traveled the world to convey the message that Iran is not open for business. Throughout the JPOA’s duration, I have explained to government counterparts and private sector executives in the U.K., Germany, Italy, Austria, Turkey, and the United Arab Emirates that we will identify, target, and take action against those that trigger our complex and robust sanctions that continue in effect under the JPOA. My colleagues across the U.S. Government have carried the same message to interlocutors in France, Russia, China, Japan, and South Korea, and elsewhere.

*Question.* In February 2012, the Wall Street Journal reported that Turkey’s state-owned bank, Halkbank, was processing “payments for Indian refiners unable to pay Tehran for imported oil through their own banking system for fear of retribution from Washington,” and that the Turkish bank was responsible for Turkey’s “gas-for-gold” transactions with Iran despite an Executive Order issued by the Obama administration prohibiting gold payments to the Government of Iran. As Turkey’s Deputy Prime Minister Ali Babacan frankly admitted, Turkey’s “gold exports [to Iran] end up like payments for our natural gas purchases.”

- ◆ a. Why did the Treasury Department fail to crack down on gas-for-gold scheme before it was reported by the Wall Street Journal?

Answer. The Wall Street Journal’s November 2012 report on the “gas-for-gold” scheme came after the issuance of Executive Order (E.O.) 13622, on July 30, 2012, which for the first time made sanctionable the purchase or acquisition of precious metals, including gold, by the Government of Iran. After E.O. 13622 was issued, and in response to U.S. engagement with the Turkish Government and private sector actors, Turkey’s gold exports to Iran plummeted by more than 90 percent, according to Turkish customs statistics.

Treasury has a strong record of aggressively pursuing Iran’s financial networks and implementing sanctions against Iran and those individuals and entities that violate our sanctions, though I cannot comment on possible enforcement investigations. In the case of gold, we quickly cracked down Iran’s gold purchases when Iran’s sudden increase in gold purchases gave rise to concerns that Iran could use gold to evade our sanctions.

- ◆ b. And once it became publicly clear this activity was ongoing, why did the administration request that the sanctions used to plug this loophole be delayed another 6 months, thereby granting Turkey and other countries a 6-month exemption from the tougher gold sanctions?

Answer. Iran’s ability to pay for gold imports from Turkey from the funds generated by its oil and gas exports to Turkey was largely restricted after the issuance of E.O. 13622. As noted above, Turkey’s gold exports to Iran plummeted by more than 90 percent, according to Turkish customs statistics, in the months after E.O. 13622 was issued.

Congress, working jointly with the administration, ultimately decided that a 6-month delayed implementation date was the best approach for nearly all of the financial provisions in the Iran Freedom and Counter-Proliferation Act of 2012 (“IFCA”)—not only the gold-related sanctions. IFCA was introduced on the heels of the Iran Threat Reduction and Syria Human Rights Act of 2012 (the “TRA”). At that time, many portions of the TRA had yet to be implemented—including section 504 of the TRA, a cornerstone provision that restricted access to Iranian oil proceeds except for qualifying bilateral or humanitarian trade. Congress recognized that implementing a new round of sanctions in IFCA before we had finished implementing the TRA would have posed challenges, such as the ability to garner international support and dedicate sufficient resources for effective implementation.

- ◆ c. This loophole allowed Iran to receive over \$100 billion, and \$1.3 billion in gold payments in the first quarter of 2013 alone. Was this loophole maintained to grease the secret discussions with Iranian officials in Oman at that time?

Answer. The claim that Iran has been able to access more than \$100 billion in a “gas-for-gold” scheme cannot possibly be true. This is inconsistent with the weak macroeconomic indicators we are seeing in Iran today and inconsistent with all-source intelligence reporting. The cited \$100 billion represents more than twice the value of Iranian oil exports last year and is approximately the same value as Iran’s total foreign currency holdings, which are mostly restricted or inaccessible.

The \$1.3 billion in Iranian gold purchases from Turkey during the first 6 months of 2013 were largely the product of Iranian individuals and companies attempting to find a stable store of value while facing the depreciating value of the rial. This search for other assets is largely what contributed to the steep decline in the rial’s value in 2012 and early 2013.

Discussions with Iran in 2013 did not factor into any of the Department of the Treasury’s discussions with Congress regarding IFCA-related sanctions on Iran.

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RESPONSES OF UNDER SECRETARY WENDY SHERMAN TO QUESTIONS  
SUBMITTED BY SENATOR JEFF FLAKE

*Question.* The administration has said they will vigorously enforce the remaining sanctions on Iran and will take action against entities that abuse the sanctions relief. Vigorous enforcement will be crucial to ensure companies do not reenter the Iranian market above what is permitted under the sanctions relief. As Under Secretary Cohen said last week in Turkey, “Businesses interested in engaging in Iran really should hold off. The day may come when Iran is open for business, but the day is not today.”

- ◆ What areas of sanctions relief raise the most concern that they might be prone to abuse by bad actors looking to make a quick profit?

Answer. We have made abundantly clear to both foreign governments and the private sector that, with the exception of the limited and temporary relief offered under the Joint Plan of Action (JPOA), we will vigorously enforce all existing sanctions on Iran throughout the duration of JPOA implementation, including prohibitions on investment in Iran’s energy sector, the purchase of Iranian oil by new customers, and a wide range of other commercial and financial activities. This commitment is ironclad, and we closely track Iran’s economic activities every day. There is not one area of the sanctions relief that causes us particular concern, as the parameters of the JPOA are narrow and international companies know well our commitment to punishing those who exceed them.

*Question.* I’m concerned that the 6 months to a year envisioned for negotiations on a final agreement will be extended and then extended again and the talks will just drag on. Former Secretary of Defense Gates put it well, saying recently, “I think there ought to be a firm deadline at 6 months. I think the Iranians are world-class experts in slow-rolling their negotiating partners or adversaries.”

- ◆ Under Secretary Sherman, what happens in July if no agreement is reached? Are we going to offer Iran more sanctions relief not to restart its program? Would it be acceptable to the administration for Iran’s nuclear program to continue at current levels?

Answer. The Joint Plan of Action expires 6 months from the January 20 implementation date. There is no automatic renewal or extension of the relief the P5+1 is providing to Iran. The Plan can only be renewed by mutual consent. If the P5+1 agree to renew it, we would have to decide whether and if to provide additional relief. We want to ensure that the first step does not become the status quo, hence the tight timeline.

*Question.* White House Press Secretary Jay Carney recently said Iran will be required, under a comprehensive solution . . . to dismantle “significant portions of its nuclear infrastructure.” Yet in an interview with CNN’s Fareed Zakaria, President Rouhani said there will be no destruction of any existing centrifuges and that Iran will not accept limitations regarding its nuclear technology research and development.

- ◆ Given these statements, what are the prospects for reaching a final agreement that ensures Iran cannot produce a nuclear weapon? Can you define what the dismantlement of a significant portion of Iran’s nuclear infrastructure might look like?

Answer. The P5+1 and EU will meet with Iran in Vienna on February 18 to begin negotiations on a long-term comprehensive solution that will fully address the international community's concerns regarding Iran's nuclear program. Such a solution would provide verifiable assurances to the international community that Iran's nuclear activities will be exclusively peaceful and ensure that Iran does not acquire a nuclear weapon. We have always been clear in our discussions with Iran that, as part of a comprehensive solution, Iran will be expected to implement strict limits and constraints on its nuclear program. Under the terms of the JPOA, Iran has committed itself to a number of steps before we finalize a comprehensive solution, including, among other things, fully resolving concerns related to the IR-40 reactor at Arak and addressing the United Nations Security Council (UNSC) resolutions with a view toward bringing to a satisfactory conclusion the UNSC's consideration of this matter. In addition, Iran has committed to implement agreed transparency measures and enhanced monitoring. The Joint Commission set up between the P5+1 and Iran to oversee the implementation of the JPOA will also work with the International Atomic Energy Agency to facilitate the resolution of "past and present issues of concern"—which all parties understand means the possible military dimensions of Iran's nuclear program.

