Written Testimony of Adam J. Szubin
Acting Under Secretary of Treasury for Terrorism and Financial Intelligence
United States Senate Committee on Banking, Housing, and Urban Affairs
August 5, 2015

Chairman Shelby, Ranking Member Brown, and Members of the Committee: Thank you for inviting me to appear before you today to discuss the Joint Comprehensive Plan of Action (JCPOA) that the United States and our negotiating partners concluded with Iran on July 14. It is an honor to appear alongside Ambassador Sherman. A foreign policy matter of such importance deserves a careful analysis. I am confident that an open and honest debate based on the facts will make evident that this deal will strengthen America's security and that of our allies.

Having spent more than a decade at the Treasury Department working to strengthen our diplomatic efforts by imposing sanctions pressure on Iran, I will focus on the global sanctions coalition built and led by the United States that gave us the leverage necessary to secure unprecedented nuclear concessions from Iran. I will then discuss the nature of the sanctions relief in this deal, and how the JCPOA is designed to keep pressure on Iran to fulfill its nuclear commitments. Lastly, I will explain the tough sanctions that will remain in place to combat a range of malign Iranian activity outside the nuclear sphere—including its support for terrorism and militant proxies in the Middle East, its missile program, and its human rights abuses.

The Impact of Our Sanctions: Bringing Iran to the Table

The powerful set of U.S. and international sanctions on Iran, and especially those imposed over the last five years, effectively isolated Iran from the world economy. The U.S. government led this effort across two administrations and with bipartisan backing in Congress. Together we obtained four tough UN Security Council resolutions, and built upon our longstanding primary embargo by enlisting the support of foreign partners from Europe to Asia to impose further pressure on Iran. This campaign yielded results. After years of intransigence, Iran came to the table prepared to negotiate seriously over its nuclear program.

To see the impact of the sanctions campaign, consider the following metrics. Today, the Iranian economy is estimated to be only 80 percent the size that it would have been, had it continued on its pre-2012 growth path. Consequently, it will take until at least 2022—even with sanctions relief—for Iran to get back to where it would have been absent our sanctions. Iran has foregone approximately $160 billion in oil revenue alone since 2012, after our sanctions reduced Iran's oil exports by 60 percent. This money is lost and cannot be recovered.

Iran's designated banks, as well as its Central Bank, have been cut off from the world. The Iranian currency has declined by more than 50 percent. We maintained strong economic pressure throughout the two-year negotiating period. Indeed, during that time, our sanctions deprived Iran of an additional $70 billion in oil revenue, and Iran's total trade with the rest of the world remained virtually flat.

To achieve this pressure, international consensus and cooperation were vital. Around the world, views on Iran's sponsorship of groups like Hizballah and its regional interventions differ. But the world's major powers have been united in preventing a nuclear-armed Iran. Iran's major trading partners and oil customers joined us in imposing pressure on Iran, and paid a significant economic price to do so, based on U.S. sanctions and a clear path forward. The point of these efforts was clear: to change Iran's nuclear behavior, while holding out the prospect of relief if Iran addressed the world's concerns about its nuclear program.

The Nature and Scope of JCPOA Relief

As Ambassador Sherman has described, the JCPOA addresses these nuclear concerns by closing off Iran's pathways to a nuclear weapon and providing access to ensure compliance, while preserving leverage if Iran breaches the deal. If Iran fully complies with the terms of the JCPOA, and if the IAEA verifies their compliance, phased sanctions relief will come into effect.

To be clear: when the JCPOA goes into effect, there will be no immediate relief from UN, EU, or U.S. sanctions. There is no "signing bonus." Only if Iran fulfills the necessary nuclear conditions—which will roll back its nuclear program and extend its breakout time five-fold to at least one year—will the United States lift sanctions. We expect that to take at least six to nine months. Until Iran completes those steps, we are simply extending the limited relief that has been in place for the last year and a half under the Joint Plan of Action. There will not be a cent of new sanctions relief.

Upon "Implementation Day," when phased relief would begin, the United States will lift nuclear-related secondary sanctions targeting third-country parties conducting business with Iran, including in the oil, banking, and shipping sectors. These measures were imposed in response to the security threat from Iran's nuclear program; accordingly, they will be suspended in exchange for verifiable actions to alleviate that threat.

As we phase in nuclear-related sanctions relief, we will maintain and enforce significant sanctions that fall outside the scope of this deal, including our primary U.S. trade embargo. Our embargo will continue to prohibit U.S. persons from investing in Iran, importing or exporting to Iran most goods and services, or otherwise dealing with most Iranian persons and companies. Iranian banks will not be able to clear U.S. dollars through New York, hold correspondent account relationships with U.S. financial institutions, or enter into financing arrangements with U.S. banks. Nor will Iran be able to import controlled U.S.-origin technology or goods, from anywhere in the world. In short, Iran will continue to be denied access to the world's principal financial and commercial market. The JCPOA provides for only minor exceptions to this broad prohibition.

Countering Malign Iranian Conduct

As we address the most acute threat posed by Iran, its nuclear program, we will be aggressively countering the array of Iran's other malign activities. The JCPOA in no way limits our ability to do so, and we have made our posture clear to both Iran and to our partners. This means that the United States will maintain and continue to vigorously enforce our powerful sanctions targeting

Iran's backing for terrorist groups such as Hizballah. In the last two months alone, for example, we designated eleven Hizballah military officials and affiliated companies and businessmen. We will also continue our campaign against Hizballah's sponsors in Iran's Islamic Revolutionary Guard Corps-Quds Force; Iran's support to the Houthis in Yemen; its backing of Assad's regime in Syria; and its domestic human rights abuses. We will also maintain the U.S. sanctions against Iran's missile program and the IRGC writ large.

Let there be no doubt about our willingness to continue enforcing these sanctions. During the JPOA period, when we were intensely negotiating with Iran, we took action against more than 100 Iranian-linked targets for their WMD, terrorism, human rights abuses, evasion and other illicit activities.

Nor are we relieving sanctions on Iran's Revolutionary Guard Corps, its Quds Force, any of their subsidiaries or senior officials. The U.S. designation of Quds Force commander Qassem Suleimani will not be removed, nor will he be removed from EU lists related to terrorism and Syria sanctions.

Sanctions will also remain in place on key Iranian defense entities, including Iran's Ministry of Defense and Armed Forces Logistics (MODAFL), Defense Industries Organization, Aerospace Industries Organization and other key missile entities, including Shahid Hemat Industrial Group (SHIG) and Shahid Bagheri Industrial Group (SBIG). We will also retain sanctions on Iranian firms such as the Tiva Sanat Group, which has worked to develop a weapons-capable fast boat to be used by the IRGC-Navy, and Iran Aircraft Manufacturing Industrial Company (HESA), which manufactures unmanned aerial vehicles used by the IRGC, as well as third country firms that have assisted Iran's missile and defense programs. Under the JCPOA, more than 225 Iran-linked persons will remain designated and subject to our sanctions, including major Iranian companies and military and defense entities and firms.

It is worth emphasizing that our sanctions authorities will continue to affect foreign financial institutions that transact with these more than 200 Iranian persons on our Specially Designated Nationals List, as well as persons who provide material or other types of support to Iranian SDNs. These measures provide additional deterrence internationally. For example, a foreign bank that conducts or facilitates a significant financial transaction with Iran's Mahan Air, the IRGC-controlled construction firm Khatam al Anbiya, or Bank Saderat will risk losing its access to the U.S. financial system, and this is not affected by the nuclear deal.

Sanctions Snap Back

Of course, we must guard against the possibility that Iran does not uphold its side of the bargain. That is why, should Iran violate its commitments once we have suspended sanctions, we will be able to promptly snap back both U.S. and UN sanctions, and our EU colleagues have reserved the ability to do so with respect to their sanctions as well.

For U.S. sanctions, this can be achieved rapidly—in a matter of days—from smaller penalties up to and including the powerful oil and financial measures that were so effective against Iran's economy. New measures could also be imposed if Iran were to violate its commitments and renege on the deal.

Multilateral sanctions at the UN also can be reimposed quickly, and the United States has the ability to reimpose those sanctions unilaterally, even over the objections of other P5 members.

To those with concerns that Iran can accumulate minor violations over time, it is important to clarify that if there are small violations, we can address them through a variety of measures – snap back does not have to be all or nothing. This approach gives us maximum flexibility and maximum leverage.

If sanctions snap back, there is no "grandfather clause." While we have committed not to retroactively impose sanctions for legitimate activity undertaken during the period of relief, any transactions conducted after the snap-back occurs are sanctionable. To be clear, there is no provision in the deal that protects contracts signed prior to snap back—once snap back occurs, any prospective transaction is sanctionable.

JCPOA Relief in Perspective

Some have argued that sanctions relief is premature until Iran pursues less destructive policies at home and abroad, and that funds Iran recovers could be diverted for destructive purposes. But Iran's ties to terrorist groups are exactly why we must keep it from ever obtaining a nuclear weapon. The JCPOA will address this nuclear danger, freeing us and our allies to check Iran's regional activities more aggressively. By contrast, walking away from this deal would leave the world's leading state sponsor of terrorism with a short and decreasing nuclear breakout time. We are far better positioned to combat Iran's proxies with the nuclear threat off the table.

We must also be measured and realistic in understanding what sanctions relief will really mean to Iran. Estimates of total Central Bank of Iran (CBI) foreign exchange assets worldwide are in the range of $100 to $125 billion. Our assessment is that Iran's usable liquid assets after sanctions relief will be much lower, at a little more than $50 billion. The other $50-70 billion of total CBI foreign exchange assets are either obligated in illiquid projects (such as over 50 projects with China) that cannot be monetized quickly, if at all, or are composed of outstanding loans to Iranian entities that cannot repay them. These assets would not become accessible following sanctions relief.

Because Iran's freely accessible assets constitute the country's reserves, not its annual budgetary allowance, Iran will need to retain a portion of these assets to defend its currency and stability. Of the portion that Iran spends, we assess that the vast majority will be used to tackle a mountain of debts and domestic needs that at over a half trillion dollars are more than ten times as large as the funds it can freely use. Iran will also likely need a meaningful portion of its liquid foreign exchange reserve assets to finance pent-up import demand, unify official and unofficial exchange rates, and maintain an adequate foreign exchange buffer against future external shocks. For reference, $50 billion is roughly in line with the 5-10 months of imports foreign exchange buffer that comparable emerging markets countries and the IMF consider prudent. All the while, Iran's economy continues to suffer from immense challenges—due to factors including budget deficits, endemic corruption, dilapidated energy infrastructure, a poor business environment, and the reputational concerns of foreign companies. Let us also recall that President Rouhani, who rose to the presidency on a platform of economic revival, faces a political imperative to show meaningful economic gains to the Iranian population. The Supreme Leader's approval of the negotiations suggests his understanding of this need as well.

We are mindful that at least some of the funds Iran receives from relief could find their way to malign purposes. This prospect is inherent in any realistic nuclear deal, no matter its duration or terms. But therefore it is incumbent on us to intensify our work, alongside Israel and our regional allies, to combat these malicious proxies.

Alternative Approaches

Sanctions were a means to an end, and relief was a necessary part of any deal. The deal we have achieved in the JCPOA is a strong one. It phases in relief in exchange for verified Iranian compliance with nuclear-related steps, and has a strong snap-back built in. It would be a mistake for the United States to back away based on the misconception that it would be feasible to escalate the economic pressure in order to obtain a broader Iranian capitulation.

It is unrealistic to think that, with a broken international consensus and less leverage, we could somehow secure a "much better" deal involving Iran's capitulation and the eradication of its peaceful nuclear infrastructure or the cessation of its support for longtime proxies such as Hizballah.

Our partners agreed to impose costly sanctions on Iran for one reason—to negotiate an end to the threat of a nuclear weapon-capable Iran. If we change our terms now, and insist that these countries now escalate sanctions when we have jointly addressed this threat through the JCPOA, then our ability to impose additional pressure will be severely diminished.

Iran's escrowed reserves are not in our hands, and much of the world is prepared to do business in Iran. If the United States were to walk away from this deal, and ask our partners to continue locking up Iran's reserves and maintaining sanctions, the consensus likely would fray, with unpredictable results. Rejecting the deal in pursuit of objectives over which there is far less international consensus and unity would allow the sanctions regime to unravel and our leverage to dissipate. And we would risk losing both a nuclear deal and the sanctions leverage.

Conclusion

Enforcing this deal, and securing the nuclear concessions Iran has made, will capitalize on our carefully built economic pressure strategy. The deal's terms accomplish our overarching goal. Blocking all of Iran's paths to a nuclear bomb makes us and our allies safer.