Written Testimony of
U.S. Department of the Treasury Under Secretary David S. Cohen
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on Foreign Relations

"Negotiations on Iran's Nuclear Program"

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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 six-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 six 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 two 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 six 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 six 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% of its value against the dollar since 2011 while the official inflation rate is around 38%.

Going forward over the six-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% over the last two 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 two 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 struggle 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 long-standing 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 six weeks, I have traveled to the UK, 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 six 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 six 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.

Thank you.