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Senate Committee on Foreign Relations
"Iran: Status of the P5+1 Negotiations with Iran"

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Chairman Menendez, Ranking Member Corker, and distinguished members of the Committee: Thank you for your invitation to appear before you at this important time to discuss our implementation of the extended Joint Plan of Action (JPOA).

I will focus my testimony today on our efforts to continue to maintain pressure on Iran in order to achieve a successful outcome in the negotiations over its nuclear program. I will also provide an overview of the limited, temporary, and reversible relief in the extended JPOA. And, finally, I will discuss the ever-mounting pressure that Iran will continue to face as the P5+1 seeks a comprehensive and long-term resolution to the international community's concerns over Iran's nuclear program.

The State of the Iranian Economy

When we announced the JPOA last year, we said that we did not expect the relief package in the JPOA to materially improve the Iranian economy. And it has not. The depths of Iran's economic distress – distress that resulted in large measure from the collaborative efforts of Congress, the Administration, and our international partners – dwarfed the limited relief in the JPOA. And so today, as we start to implement the short-term extension of the JPOA, Iran remains in a deep economic hole.

It is useful to focus on three key indicators of Iran's economy, the rial (Iran's currency), its revenues, and its reserves. Judging by these three measures, the Iranian economy is doing worse today than it was at the outset of the JPOA.

- Rial: Iran's currency, the rial, has depreciated by about 50 percent since January 2012 and has declined by about 7 percent since the JPOA was announced last November. Iran's central bank governor earlier this year bemoaned the fluctuations in the value of the rial in light of persistent costs and delays in obtaining hard currency and the limited tools available to intervene effectively in the currency market. In this regard, I would note that it remains sanctionable to provide U.S. dollar banknotes to the Iranian government.

- Revenue: The cumulative impact of our sanctions since 2011 has caused Iran to lose about $120 billion in oil revenues – the key driver of Iran's economic growth. Iran will forego an additional $15 billion in oil revenues during the next four months alone as the sustained impact of our oil sanctions, which took effect in early 2012, continue to exact their toll on Iranian earnings. Moreover, Iran will only be able to use a small fraction of the revenue it earns from crude oil sales during the extended JPOA period, because its oil revenue continues to go into overseas accounts restricted by our sanctions.

- Reserves: And the vast majority of Iran's approximately $100 billion in foreign reserves remain inaccessible or restricted by sanctions. This money can only be used for permissible bilateral trade between oil-importing countries and Iran and for humanitarian trade.

Iran's economy is 25 percent smaller today than it would have been had it remained on its pre-2011 growth trajectory; it will not recover those losses for years to come. Meanwhile, Iran's annual inflation rate, at about 26 percent, is likely to remain high, and is one of the highest in the world. Unemployment also remains high, and Iran is cut off from the foreign investment that it needs to promote job growth and infrastructure development.

At the time we entered into the JPOA, some made dire predictions that our sanctions regime would crumble, and that Iran's economy would rebound dramatically. It is now clear, that did not happen. To the contrary, Iran's experience under the JPOA has reinforced its knowledge that real economic relief can come only if it obtains comprehensive sanctions relief, and that can only come about if it is prepared to enter into a comprehensive plan of action that ensures that Iran cannot acquire a nuclear weapon and that its nuclear program is exclusively peaceful.

Sanctions Relief in the Extended JPOA

The P5+1 has committed in the JPOA extension period to continue the limited, temporary, and reversible sanctions relief of the JPOA, and to authorize the release to Iran of a small fraction of its restricted overseas assets in return for Iran's commitment to continue to abide by the conditions on its nuclear program as set out in the JPOA, and to take a number of additional steps to constrain its nuclear program.

Over the four-month period of the extended JPOA, and provided that it satisfies its commitments under the extension, Iran will be allowed to access, in tranches, $2.8 billion worth of restricted funds. This amount is the four-month prorated amount of funds made available under the original JPOA.

Other aspects of the JPOA sanctions relief also will remain in effect for the next four months, including sanctions related to Iran's petrochemical exports, its crude oil exports to current purchasers at current average levels, its automotive sector, the purchase or sale of gold or precious metals, the licensing of safety-related repairs and inspection for certain airlines in Iran's civil aviation industry, and the facilitation of a financial channel for humanitarian trade, tuition payments, UN payments, and medical expenses incurred abroad.

Altogether, we value the sanctions relief in the JPOA extension at about $3 to $4 billion. This is comprised of the $2.8 billion worth of restricted funds that Iran will be permitted to access plus the value that we assess the other elements of the sanctions relief are worth.

Extended Relief in Context

We do not expect this minimal relief to alter the underlying negative fundamentals of Iran's troubled economy. We are confident in this assessment for the same reasons that we were confident in December that the JPOA would not undermine our sanctions regime: Iran is in a deep economic hole and we will continue to enforce our sanctions to send a clear message that now is not the time for businesses to re-enter Iran.

The value of this limited relief pales in comparison to the aggregate macroeconomic effects of our sanctions to date and Iran's revenue losses, both of which will continue to accumulate during the next four months. Even with the diminished value of Iran's gross domestic product – valued at about $360 billion today using the open market exchange rate – the $3 to $4 billion or so in relief over the next four months pales in comparison.

In short, Iran's economy will remain under great stress. Remaining sanctions and their substantial structural problems will undercut key industries and contribute to persistent budget deficits and sustained high unemployment. Moreover, until a comprehensive solution is reached, we anticipate that most foreign firms will decline to re-enter Iran, as was the case during the first six months of the JPOA.

The International Sanctions Regime Remains Robust

Firms have good reason to remain reluctant about doing business in Iran. The overwhelming majority of our sanctions remain in place, and we firmly intend to continue enforcing our sanctions vigorously.

Iran continues to be cut off from the international financial system with its most significant banks subject to sanctions, including its central bank. All the Iranian banks designated by the EU remain cut off from specialized financial messaging services, denying them access to critical networks connecting the rest of the international financial sector. And the fact remains that any foreign bank that transacts with any designated Iranian bank can lose its access to the U.S. financial system.

Investment and support to Iran's oil and petrochemical sectors also is still subject to sanctions. And there are severe restrictions on providing technical goods and services to the Iranian energy sector.

Broad limitations on U.S. trade with Iran remain in place, meaning that Iran continues to be shut out of the world's largest and most vibrant economy and precluded from transacting in the dollar.

Our sweeping set of designated Iran-related actors – developed in concert with partners around the world, including in the EU, Canada, Australia, Japan, South Korea, and Singapore – remains in place. We have used our Iran-related authorities to sanction nearly 680 persons, a number that is complemented by the hundreds of Iranian individuals and entities against which our partners have also taken action. This multilateral effort to target those involved in Iran's illicit conduct remains the cornerstone of the unprecedented sanctions regime that we have built in recent years.

Finally, we remain vigilant in our efforts to counter Iran's support for terrorism, its abuse of human rights, and its destabilizing activities in the region. We are committed to maintaining those sanctions and have an active diplomatic campaign aimed at persuading other jurisdictions and financial institutions to cut them off as well. Nothing in the JPOA, the extended JPOA, or in a comprehensive deal that may come, will affect our efforts to address Iran's malign activities in these areas.

Vigorous Enforcement of Existing Sanctions

Throughout the JPOA, we have demonstrated vigorous sanctions enforcement, recognizing the essential role that financial pressure played in the lead-up to, and now during, the JPOA, and how important maintaining that pressure will continue to be during this extended JPOA period. We are determined to continue to respond to Iran's evasion efforts, wherever they may occur.

Since the JPOA was negotiated, we have imposed sanctions on more than 60 entities and individuals around the world for evading U.S. sanctions against Iran, aiding Iranian nuclear and missile proliferation, supporting terrorism, and for carrying out human rights abuses. This amounts to nearly 10 percent of all of our Iran-related designations and listings since we first took action against Iran's Atomic Energy Organization in 2005. We have also continued to enforce our sanctions against entities and individuals that violate Iran-related prohibitions, resulting in penalties and settlements for violations of the regulations enforced by the Office of Foreign Assets Control of more than $350 million during the past six months. We have been very clear to both our international partners and to Iran that these targeting and enforcement efforts will continue throughout the next four months of the JPOA extension.

In addition to our designations and enforcement actions during the JPOA, my colleagues and I have made clear to banks, businesses, and governments around the world that the sanctions relief provided to Iran is limited, temporary, and reversible, and that the overwhelming majority of our sanctions remain in place. The simple fact remains that foreign banks and companies still have to decide whether to do business with Iran, or with the United States. They can't do both. Nothing in this respect has changed.

These actions have sent a resounding message to the international business and financial communities: Iran is not open for business today, nor will it be until it ensures the international community of the exclusively peaceful nature of its nuclear program.

Throughout this short-term extension of the JPOA, I can assure you that we will continue to make certain that businesses and governments around the world understand this. I personally plan to travel to several countries in the coming weeks to meet with government and private sector counterparts to explain the continued limitations of the sanctions relief under the JPOA extension. And I know my colleagues within Treasury, at the State Department and elsewhere in the administration will do so as well. We will all echo President Obama's clear and firm message – namely, that we will come down “like a ton of bricks” on those who evade or otherwise facilitate the circumvention of our sanctions.

Conclusion

While this four-month extension will provide additional time and space for the negotiations to proceed, it will not change the basic facts and numbers on the ground. The Iranian economy is in deep distress and an additional four months of limited sanctions relief will not change that. In the meantime, we will not let up one iota in our sanctions enforcement efforts, and we are prepared to take action against anyone, anywhere who violates, or attempts to violate, our sanctions.

Thank you.