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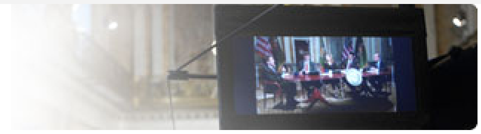

Testimony of Under Secretary Cohen before the Senate Banking Committee on Iran

1/27/2015

As prepared for delivery

WASHINGTON - Good morning. Chairman Shelby, Ranking Member Brown, and distinguished members of the committee: Thank you for the invitation to appear before you to discuss the state of sanctions on Iran, and whether our efforts to achieve a diplomatic solution to one of the most difficult and enduring national security problems that we face – Iran's nuclear program – would be advanced if Congress were to enact new sanctions legislation at this time.

I will focus my testimony today on the robust international sanctions regime that helped bring Iran to the negotiating table, the intense pressure that sanctions continue to place on the Iranian economy, and our continued vigorous enforcement of those sanctions over the course of the Joint Plan of Action (JPOA). And I will explain why new sanctions legislation now – even if implementation were delayed – would more likely hinder, rather than advance, the prospects for a diplomatic solution that verifiably prevents Iran from obtaining a nuclear weapon.

At the outset, let me reiterate that no issue is of greater concern or urgency to the United States, and no issue occupies more of the time and attention of my team at the Department of the Treasury, than ensuring that Iran does not acquire a nuclear weapon. Iran in possession of a nuclear weapon would directly threaten U.S. and international security, increase the risk of nuclear terrorism, undermine the global nonproliferation regime, and risk setting off an arms race in the Middle East. From the outset of his administration, President Obama has made clear that we will do everything in our power to prevent Iran from obtaining a nuclear weapon.

For us at Treasury, that has meant working within the Administration, with Congress, and with partners around the world to impose the most effective set of financial and economic sanctions in history. The sanctions have impeded Iran's ability to acquire material for its nuclear program, isolated it from the international financial system, drastically slashed its oil exports, deprived it of access to a sizeable portion of its oil revenues and foreign reserves, and severely constrained its overall economy.

In many respects, the global sanctions regime has achieved exactly what it was designed to do: encourage Iran to come to the negotiating table, not to posture, pontificate, and procrastinate, but to engage in serious diplomacy over its nuclear program. Iran is negotiating because it knows that relief from the sanctions can come only in exchange for taking concrete and verifiable steps that will guarantee that it cannot produce a nuclear weapon.

As this committee knows, those negotiations are ongoing. They began when we negotiated the JPOA, which was reached on November 2013. In November 2014, the P5+1 and Iran decided to extend the talks for another seven months. We agreed to the extension because our negotiators have made meaningful progress, and because it takes time to conduct the highly technical deliberations necessary to get a comprehensive solution that will cut off each of Iran's possible pathways to a nuclear weapon.

We may ultimately reach a comprehensive solution; we may not. The President last week reiterated that the chances that we get a deal are probably less than 50 percent. But we, like you, are committed to testing fully the diplomatic path.
That is why we have continued to maintain throughout the JPOA period the intense financial and economic pressure that brought Iran to the table in the first place. And that is also why we must give our negotiators the time and space they need to pursue the possibility of a comprehensive solution, without undercutting their efforts, fracturing the coalition, or, with the best of intentions, sending mixed signals about the interest of the United States in a diplomatic resolution.

The International Sanctions Regime Remains Robust and Vigorously Enforced

When Iran and the P5+1 concluded the JPOA in November 2013, Iran committed to halt progress on its nuclear program, roll it back in important respects, and provide unprecedented access to and inspections of its enrichment facilities. In exchange, Iran received limited, targeted, and reversible relief from some nuclear-related sanctions.

Importantly, the JPOA left in place the full architecture of our financial, banking, oil, and trade sanctions; our sanctions focused on Iran's support for terrorism and its violation of human rights; and our own domestic embargo.

I'd like briefly to review the breadth of that sanctions architecture – painstakingly designed by the Administration, Congress, and our international partners over many years – because it provides an important backdrop to any discussion of imposing additional sanctions.

First, Iran remains subject to sweeping sanctions by the United States and our allies on its financial and banking sectors:
Iran continues to be almost completely isolated from the international financial system, with its most significant private and state-owned banks, including its central bank, subject to U.S. sanctions and cut off from international payment messaging systems.

Any foreign bank that transacts with designated Iranian banks – or with most other designated Iranian individuals or entities – can lose access to the U.S. financial system. That means losing the ability to facilitate transactions in the dollar, a death penalty for any international bank.

It remains sanctionable to provide physical U.S. dollar banknotes to the Iranian government.

Second, our sanctions have targeted Iran's key economic engine, its energy sector:

Our sanctions have drastically driven down Iran's oil exports. In 2012, Iran was exporting approximately 2.5 million barrels of oil a day to some 20 countries; today, it exports only around 1.1 million barrels, and only to six countries. Under the JPOA, moreover, Iran's six remaining oil customers may not exceed their current purchase levels.

Additionally, payment for oil purchased from Iran by these six countries must be paid into accounts that can be used only to facilitate humanitarian transactions or bilateral trade between the importing country and Iran. With the exception of funds released under the JPOA, this Iranian oil revenue can neither be brought back to Iran nor transferred to third countries. And because the accounts into which Iran receives oil revenue already hold more funds than Iran spends on bilateral or humanitarian trade, the effective value of those oil sales to Iran is far less than 100 cents on the dollar.

We also have broad authorities targeting the provision of goods and services to the Iranian energy sector or investment in that sector. Any entity that is itself part of Iran's energy sector is subject to sanctions.

Because Iran cannot access Western technology and services, and because it has been forced to sharply cut its oil exports, we have also seen a significant decline in its production of oil. Independent experts report that Iran produced fewer than 2.8 million barrels a day in December, down from almost 3.6 million barrels a day in 2011.

Third, there are sanctions on other important sectors of the Iranian economy. We have broad tools that target Iran's petrochemical, insurance, ports, shipping, and shipbuilding sectors, as well as its trade in certain crucial metals and industrial materials.
Fourth, beyond these sector-focused sanctions, we have a range of other sanctions authorities that we use to intensify the pressure on the Iranian regime.

It is sanctionable to act on behalf of the Government of Iran, as well as to provide the Government of Iran or the Iranian individuals and entities on OFAC's sanctions list with financial, material, or technological support.

Under our counter-terrorism, counter-proliferation, human rights, and other Iran-related authorities, we have imposed sanctions on more than 700 Iran-related individuals and entities, almost 15 percent of which have been designated since the signing of the JPOA. And importantly, anyone who conducts business with these individuals or entities, or any other designated Iranian entity, is at risk of being targeted for sanctions.

Last but not least, 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 remains unable to access the U.S. financial system.

These sanctions are not just words on the books – we vigorously enforce them. Over the course of the JPOA, we have repeatedly reaffirmed the point, in word and deed, that Iran is not open for business.

Since the signing of the JPOA, the United States has sanctioned nearly 100 individuals and entities that were helping Iran evade our sanctions, aiding Iranian nuclear and missile proliferation, supporting Iranian-sponsored terrorism, or carrying out Iran-related human rights abuses. Nine of those designations came less than a month ago, on December 30, including sanctions on six individuals and one entity that were working with the Iranian government to obtain U.S. dollars. We have also imposed more than $350 million in penalties on those who have violated the sanctions. These targeting and enforcement efforts will continue throughout the course of the JPOA extension.

We have also engaged extensively with foreign governments and companies to make clear the limited scope of the JPOA's sanctions relief and our continued vigilance against any breaches of our sanctions. These outreach efforts, while quieter than enforcement actions, are equally critical to our efforts to pressure Iran.

And as we sit here, members of my staff are poring over reams of financial intelligence searching for signs of sanctions evasion, working with banks and businesses to help them better comply with sanctions, and engaging directly with foreign governments, foreign regulators, foreign businesses, and individuals around the world to make certain that they understand the consequences of violating our sanctions. And although I will depart the Treasury Department in a few weeks, everyone should rest assured that vigorous enforcement of our sanctions will continue unabated.

Through all of these efforts, we make it abundantly clear to Iran that its only hope for real relief from sanctions is to enter into a comprehensive arrangement that guarantees that it cannot produce a nuclear weapon.

The State of the Iranian Economy

In light of the extensive sanctions that remain firmly in place and are being vigorously enforced, it should come as no surprise that the Iranian economy remains in a deep hole.

When I testified before the Senate Foreign Relations Committee in July, I suggested three metrics by which to judge Iran's economic distress – its oil revenues, the value of its currency, and its foreign reserves. By all three measures, Iran continues to be worse off today than it was when it entered into the JPOA.

Revenues: The overall health of the Iranian economy and the Iranian government's balance sheet depend heavily on oil revenues, and our sanctions have cut deeply into those revenues. As I noted earlier, our sanctions have caused Iran's oil exports to drop almost 60 percent, from approximately 2.5 million barrels per day in 2012 to approximately 1.1 million today. Because of this dramatic decline in sales, in 2014 alone our oil sanctions deprived Iran of over $40 billion, which is well over twice the total estimated value to Iran of the limited sanctions relief in the JPOA – and that is money Iran can never recover, because it represents sales that were not made. Altogether, since 2012, our oil sanctions have denied Iran access to more than $200 billion in lost exports and funds it cannot freely use.

Furthermore, for the seven month period of the JPOA extension, from December 2014 to June 2015, we estimate that Iran will be forced to endure another $15 billion in lost sales. Moreover, of the estimated $12 billion that Iran may continue to earn in oil revenue during this JPOA extension, our sanctions mean that Iran will only be able to access a limited amount of this revenue, since much of it will remain restricted in overseas accounts.

Meanwhile, the current sustained decline in oil prices is, in the words of Iranian officials, imposing an additional set of sanctions on Iran. Over the past year, the average price of a barrel of oil has dropped by more than 50 percent; it is trading today at slightly under $50 per barrel. If oil prices remain at current levels, Iran will lose an additional $11 billion in oil revenue from what it was expecting to take in during this most recent seven-month extension of the JPOA.

All of this is creating havoc with Iran's budget. For its current fiscal year (March 2014 to March 2015), Iran assumed that oil would sell for $100 per barrel. It has not, which has cut into its revenues for this year. And next year will be even bleaker.
In December, President Rouhani proposed a budget for the coming fiscal year that assumed oil would sell for $72 per barrel and that included proposals to cancel subsidies, raise taxes, reduce contributions to its sovereign wealth fund, and scrap projects. But that draft budget already has proved overly optimistic, and just last week, the Iranian Finance and Economy Minister revealed that Iran is revising downward its budget because it is now assuming a price of $40 per barrel. This will likely result in more spending cuts, fewer services, and higher taxes.

Rial: Iran's currency, the rial, has depreciated by about 56 percent since January 2012, including a decline of about 16 percent just since November 2013, when the JPOA was signed. This makes imported goods more expensive, disrupts plans for investment in Iran, causes the general inflation rate to rise, and hurts the Iranian economy by causing significant uncertainty about future prices.

Reserves: The vast majority of Iran's approximately $100 billion in foreign currency reserves remain inaccessible or restricted by sanctions. Iran can use most of this money only to pay for permissible bilateral trade between the six remaining oil importing countries and Iran, as well as for humanitarian purposes. Without hard currency reserves, Iran is limited in its ability to intervene in its currency market to stabilize the rial, and it also becomes more difficult to conduct foreign trade.

If you take a step back and look at Iran's broader economy, the picture is no less dismal. Despite some signs of an uptick in Iran's GDP, Iran's economy is performing far below its potential. Iran's GDP shrank by roughly 9 percent in the two years ending in March 2014, and its economy today is 15 to 20 percent smaller than what it would be had it remained on its pre-2012 growth trajectory. Moreover, at 17 percent, Iran's inflation rate is one of the highest in the world.

The dire predictions we heard that the limited sanctions relief in the JPOA would lead to a collapse of the sanctions regime and reduce pressure on Iran clearly have not materialized. The sanctions structure has held up just fine. We estimate that the total value to Iran of the JPOA sanctions relief, which comes largely from enabling Iran to access some of its own restricted oil revenues held overseas, will add up to approximately $14 to $15 billion by June 2015. This relief pales in comparison to the significant revenues that Iran has forgone as a result of sanctions, and it cannot make up for Iran's systemic economic weaknesses and imbalances.

Put simply, Iran's economy is significantly impaired, and it will remain that way as long as our sanctions are in place – and Iran's leaders know this. Thanks to cooperation on the international stage between the United States and its allies, and the joint work of Congress and this Administration, Iran is negotiating with its back against the wall. So long as we continue to maintain our current pressure on Iran – and we are committed to doing just that – its leaders have every incentive to come to a comprehensive solution and resolve this issue peacefully.

Additional Sanctions Legislation Now Is Unnecessary and Potentially Harmful

Because of the scope and intensity of the sanctions Iran currently is subject to, and because of the economic pressure those sanctions continue to apply, we believe that new sanctions are not needed at this time. To the contrary, new sanctions at this time – even with a delayed trigger – are more likely to undermine, rather than enhance, the chances of achieving a comprehensive solution, and are more likely to reduce, rather than increase, the chances of sustaining and increasing pressure on Iran if the negotiations fail.

In our efforts to prevent Iran from obtaining a nuclear weapon, sanctions were never an end in themselves. Sanctions alone were never going to stop Iran from installing centrifuges or enriching uranium. Instead, sanctions always were intended principally as a means to persuade Iran to negotiate in earnest.

And that has worked. We now have a situation in which Iran is engaged in a serious negotiation with the P5+1, while progress on its nuclear program is frozen, certain aspects of the program have been rolled back, and we have unprecedented insight into its nuclear activities. And, furthermore, its economy remains under enormous pressure, in large measure because we have been able to hold together the international coalition that has joined us in imposing crippling sanctions.

Enacting additional sanctions legislation at this point threatens to unravel this situation. In our judgment – a judgment that is shared by our international partners – new sanctions legislation now is substantially more likely to impede progress at the negotiating table than to induce Iran to offer additional concessions.

Moreover, if Congress enacts new sanctions now and the negotiations ultimately prove unsuccessful, our international partners may hold us, not Iran, responsible for the breakdown in the talks. While it is difficult to predict exactly what would then unfold, it is quite possible that some current members of the international sanctions coalition – whose companies are eager to resume business with Iran, but have been held off – would reevaluate their cooperation with us on pressuring Iran, making it more difficult to maintain existing pressure. If overall support for the sanctions regime declined, it also would make it more difficult to intensify sanctions pressure. Finally, if a breakdown in talks led to the demise of the JPOA, we would lose the additional insight into Iran's nuclear program and restrictions on development that the JPOA has given us.

In our view, these risks make new sanctions legislation inadvisable at this moment. But even putting aside the risks, we see no compelling reason to impose new sanctions now, considering the extent to which Iran already faces substantial financial and economic pressure.

This conclusion is reinforced, moreover, by the fact that this Congress and this Administration would move quickly to enact new sanctions if Iran were to walk away from the talks or if we concluded that a comprehensive deal was no longer within reach. As the President said just last Friday, "if Iran ends up ultimately not being able to say yes, if they cannot provide us the kind of assurances that would lead [us] to conclude that they are not obtaining a nuclear weapon, then we're going to have to explore other options," including new sanctions legislation. As has been the case with prior sanctions legislation, that legislation could go into effect in a matter of days. The Iranians know this, just as they know that the President has "consistently said [that] we leave all options on the table."

Make no mistake: This administration understands and embraces the power of sanctions. Sanctions are a key component of many of our most important national security initiatives, from our efforts to prevent Iran from obtaining a nuclear weapon to our efforts to degrade and ultimately destroy the Islamic State in Iraq and Levant. We are not sanctions doubters.

But neither do we believe that layering on additional sanctions is always the right move. Sanctions are one tool in our toolkit, as is diplomacy, as is military action, as are the myriad other ways that we project U.S. power to advance our interests, protect our allies, and defend ourselves. If diplomacy does not succeed, as the President said, he "will be the first one to come to Congress and say we need to tighten the screws." But in our view, now is the time to give diplomacy every chance to succeed, not to create a new sanctions tool.

Conclusion

In closing, I want to assure this Committee that as we seek a comprehensive solution with Iran, the Treasury Department, like the rest of this Administration, is fully committed to maintaining intense financial and economic pressure on Iran. We have not, and we will not, let up one iota in our sanctions enforcement efforts, and we will continue to take action against anyone, anywhere, who violates or attempts to violate our sanctions.
Thank you.

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