

# Congressional Testimony

## **Examining Nuclear Negotiations** *Iran After Rouhani's First 100 Days*

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Chairman Royce, Ranking Member Engel, Members of the Committee, on behalf of the Foundation for Defense of Democracies, thank you for inviting me to testify today on this important topic.

## **Introduction**

After Iranian president Hassan Rouhani's first 100 days in office, the Islamic Republic is still repressing its own citizens, and contributing to the slaughter of Syrian civilians. While Rouhani has achieved only one of his 46 explicit campaign promises, the reopening of Iran's House of Cinema (Khaneh Cinema),<sup>1</sup> he may yet deliver on his most important promise: Economic relief from sanctions without offering the West meaningful nuclear concessions.

But for the 11<sup>th</sup> hour French intervention over the weekend, the new Iranian president would have scored a significant victory at Geneva. The U.S. administration seemed ready to give tens of billions of dollars in irreversible sanctions relief, in addition to the unilateral sanctions relief by blocking new Congressional sanctions, in exchange for the promise of reversible nuclear concessions that do not roll back or freeze enough of the critical elements of Iran's military-nuclear infrastructure. In other words, Rouhani nearly delivered on his deputy nuclear negotiator Abbas Araqchi's pledge not to "allow even a gram of uranium to go out of the country."<sup>2</sup> And he nearly vindicated the conservative Iranian parliamentarian Ali Motahari who proclaimed, "Negotiations do not require concession, rather, negotiations are a tool for us to receive concessions."<sup>3</sup>

Geneva negotiations will resume on November 21. There is no indication that the Obama administration will enhance its negotiation leverage by ending its opposition to new Congressional sanctions. Such an approach will likely lead to the eventual nuclearization of Iran.

## **1. The "Deepening Human Rights Crisis" in Iran**

According to United Nations Special Rapporteur on the situation of human rights in Iran, Dr. Ahmed Shaheed, one hundred days into Rouhani's presidency, there is a "deepening human rights crisis" in Iran.<sup>4</sup> Shaheed reports: "Systemic and systematic violations of political, economic, social, and cultural rights still characterize Iran's human rights situation."<sup>5</sup>

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<sup>1</sup> See Rouhani Meter, accessed November 6, 2013. (<http://rouhanimeter.com>)

<sup>2</sup> James Reynolds, "Upbeat mood as Iran nuclear talks start in Geneva," *BBC News*, October 15, 2013. (<http://www.bbc.co.uk/news/world-middle-east-24527659>)

<sup>3</sup> "بی صداقتی از آمریکا ببینیم تغییر موضع می دهیم/ دلیل عدم صدور مجوز به احمدی نژاد برای مذاکره" *Mehr News Agency* (Iran), September 30, 2013. (<http://www.mehrnews.com/detail/News/2145492>)

<sup>4</sup> Report to the United Nations General Assembly, "Situation of human rights in the Islamic Republic of Iran," October 4, 2013. (<http://shaheedoniran.org/wp-content/uploads/2013/10/N1350031.pdf>)

<sup>5</sup> Comment posted on Dr. Ahmed Shaheed's twitter account on November 5, 2013. (<https://twitter.com/shaheedsr/status/397770066785480705>)

The intimidation and abuses against the political opposition in Iran continues. Just last month, intelligence ministry agents beat up the daughters of 2009 presidential candidate and Green Movement leader Mir-Hossein Mousavi, who still is under house arrest, when they were visiting their father.<sup>6</sup>

Since Rouhani assumed office, the rate of executions has actually accelerated. Hadi Ghaemi, executive director of the International Campaign for Human Rights in Iran reported that, “Since Rouhani’s inauguration, [an] increasing number of prisoners [are] being sent to the gallows” following unfair trials.<sup>7</sup> During the two-week period in September that corresponded with Rouhani’s trip to the UN, a record number of executions took place.<sup>8</sup>

During his presidential campaign, Rouhani stated that Iran would begin “respecting and allowing minorities to practice religious rituals.”<sup>9</sup> He further stated that, “all Iranian people should feel there is justice. Justice means equal opportunity. All ethnicities, all religions, even religious minorities, must feel justice. Long live citizenship rights!”<sup>10</sup> However, Rouhani’s administration is persecuting religious minorities.

In early October, for example, four Iranian Christians were sentenced to 80 lashes each for drinking wine during communion and for possessing a satellite antenna.<sup>11</sup> Iranian intelligence agencies continue to imprison converts to Christianity because of their religious beliefs.<sup>12</sup>

Meanwhile, the Baha’i community – a community that lacks protection under Iranian law – also continues to suffer. As the Baha’i World News Service notes:

...reports to our office actually indicate a worsening of the situation facing Baha’is in Iran. ... The Baha’i community in Iran, like many other minorities in that country, remains deprived of its most basic rights, including ultimately the right to exist as a viable community. Iran’s government must be held accountable for this hypocrisy and double standards.<sup>13</sup>

<sup>6</sup> “ضرب و شتم دختران میرحسین موسوی و زهرا رهنورد توسط ماموران امنیتی ویژه حصر,” *Rahesabz* (Iran), October 24, 2013. (<http://www.rahesabz.net/story/77190/>)

<sup>7</sup> International Campaign for Human Rights in Iran, “Iran Should Halt Executions as Rate of Hangings Accelerates,” October 8, 2013. (<http://www.iranhumanrights.org/2013/10/executions/>)

<sup>8</sup> International Campaign for Human Rights in Iran, “Iran Should Halt Executions as Rate of Hangings Accelerates,” October 8, 2013. (<http://www.iranhumanrights.org/2013/10/executions/>)

<sup>9</sup> Domestic Policy, Rouhani Meter, accessed November 6, 2013. (<http://rouhanimeter.com>)

<sup>10</sup> International Campaign for Human Rights in Iran, “Fulfilling Promises: A Human Rights Roadmap for Rouhani,” August 21, 2013. (<http://www.iranhumanrights.org/2013/08/introduction-rouhani/>)

<sup>11</sup> Benjamin Weinthal, “Rouhani’s Failed Human Rights Promises,” *FDD Policy Brief*, November 1, 2013. (<http://defenddemocracy.org/media-hit/rouhanis-failed-human-rights-promises/>)

<sup>12</sup> “اسارت اینجانب در زندان حکومت اسلامی ایران اسارت یک شخص نیست اسارت یک تفکر است (کشیش زندانی بهنام ایرانی),” *Human Rights Activists for Democracy in Iran* (Iran), April 1, 2013. ([http://hrdai.net/index.php?option=com\\_content&view=article&id=1197:1392-01-12-09-45-02&catid=1:2010-07-21-10-18-57&Itemid=4](http://hrdai.net/index.php?option=com_content&view=article&id=1197:1392-01-12-09-45-02&catid=1:2010-07-21-10-18-57&Itemid=4))

<sup>13</sup> “Despite promises, Iran continues to violate human rights, says UN report,” *Baha’i World News Service*, October 23, 2013. (<http://news.bahai.org/story/971>)

Additionally, rather than making good on “reviving the Association of Iranian Journalists,”<sup>14</sup> Rouhani’s administration continues to engage in wide-scale web-censorship and blocks upwards of 5 million websites.<sup>15</sup> Rather than freeing the at least 40 journalists and 29 bloggers who are currently serving prison terms in Iran, the regime has doubled down on its repression, banning the reformist daily *Bahar*.<sup>16</sup> Rouhani’s Minister of Intelligence Mahmoud Alavi, has also accused independent-minded journalists of being foreign agents,<sup>17</sup> a veiled threat that encourages self-censorship.

## **2. Iran’s Support for the Assad Regime**

Iran’s actions in Syria and support of President Assad also provide a window into the soul of the regime and its new president. If Rouhani had wanted to use his influence and political capital during his first 100 days to demonstrate that he sought a new direction for Iran, he could have tempered Iran’s full-throttled support for the Syrian regime’s slaughter of its own people.

Yet, we have witnessed the opposite. At his inauguration ceremony, Rouhani told Syrian Prime Minister Wael al-Halqi, “No force in the world can shake the solid, strategic and historic relations that bind the two countries in friendship. ... Syrian-Iranian relations are based on understanding and a common destiny.”<sup>18</sup>

Tellingly, during the first year of Assad’s increasingly brutal crackdown on his people, Rouhani served as Khamenei’s representative to the Supreme National Security Council. He has repeatedly and publicly pledged his support for the Assad regime against what he ironically calls “foreign interference”<sup>19</sup> and “enemies in the region, especially the Zionist regime.”<sup>20</sup>

Meanwhile, even as Rouhani claims that the Iranian people are suffering under sanctions, Rouhani’s government continues to provide the Assad regime with a \$3.6 billion line of

<sup>14</sup> Domestic Policy, Rouhani Meter, accessed November 6, 2013. (<http://rouhanimeter.com>)

<sup>15</sup> Alexandra Olson, “UN rapporteur: Iran’s human rights abuses are widespread but Rouhani raises hope for reform,” *Associated Press*, October 23, 2013.

(<http://www.montrealgazette.com/news/rapporteur+Irans+human+rights+abuses+widespread+Rouhani/9073559/story.html>)

<sup>16</sup> Golnaz Esfandiari, “Iranian Reformist Daily Becomes First Publication Banned Under Rohani,” *RFE/RL*, October 29, 2013. (<http://www.rferl.org/content/iran-media-bans-rouhani/25151237.html>)

<sup>17</sup> “دستگیری عوامل رسانه‌ای وابسته، مرهون همکاری خبرنگاران پایبند به نظام بود” *Intelligence Ministry of the Islamic Republic of Iran*, accessed November 6, 2013.

(<http://www.vaja.ir/Public/Home/ShowPage.aspx?Object=NEWS&ID=059f4463-a63e-4921-8748-588b2a9b7b6b&WebPartID=40a96c69-ed57-42cd-a46f-5ac8bdc55b22&CategoryID=c97aa57d-55e3-48d9-b382-1b7b03d683ce>)

<sup>18</sup> “Iran’s Rowhani tells Syrian PM alliance will stay strong,” *Al Arabiya*, August 4, 2013.

(<http://english.alarabiya.net/en/News/middle-east/2013/08/04/Iran-s-Rouhani-tells-Syrian-PM-alliance-will-stay-strong-.html>)

<sup>19</sup> “President Rouhani Condemns Foreign Interference, Terrorism in Syria,” *Fars News Agency* (Iran), August 4, 2013. (<http://english.farsnews.com/newstext.aspx?nn=13920513000825>)

<sup>20</sup> “New Iran President Backs Syria's Assad, Hezbollah,” *Associated Press*, July 16, 2013.

(<http://bigstory.ap.org/article/new-iran-president-backs-syrias-assad-hezbollah>)

credit,<sup>21</sup> not to mention the senior military and intelligence advisers to help suppress the rebels and murder Syrian civilians. The Islamic Revolutionary Guard Corps (IRGC) continues to train thousands of militiamen and volunteers to fight in Syria.<sup>22</sup> At Tehran's direction, Lebanese Hezbollah fighters, Iraqi Shi'a volunteers, and IRGC Ground Forces militarily engage with rebels directly.<sup>23</sup> IRGC military advisers have also fought in key battles.<sup>24</sup>

In sum, Iran is a big reason for the death toll of more than 120,000 in Syria.

### **3. "A Bad Nuclear Deal is Better than No Deal"**

Above all else, Rouhani has made it a priority to relieve the sanctions pressure on Iran to deter its illicit nuclear program. In fact, he staked his political future on getting sanctions relief while maintaining the fundamental elements of that nuclear weapons program. This was the motivating factor for his diplomatic charm offensive, which has already yielded impressive results.

The P5+1 has responded to Rouhani's diplomatic overtures with the Geneva diplomatic process. Notwithstanding their statements to the contrary, American negotiators seem to believe that a "bad deal is better than no deal." The Obama administration has already diminished its own negotiating leverage by renouncing additional economic sanctions as a means to persuade Tehran to verifiably dismantle its military-nuclear program, including the suspension of all enrichment and reprocessing, as required by multiple U.N. Security Council resolutions.

The Obama administration has also undermined the deterrent effect of the U.S. military option. Senior administration officials have repeatedly warned about the grave dangers of U.S. or Israeli pre-emptive military strikes.<sup>25</sup> The botched messaging and the ultimate

<sup>21</sup> "Iran Grants Syria \$3.6 Billion Credit to Buy Oil Products," *Reuters*, July 31, 2013.

(<http://www.reuters.com/article/2013/07/31/us-syria-crisis-iran-idUSBRE96U0XN20130731>)

<sup>22</sup> Farnaz Fassihi, Jay Solomon and Sam Dagher, "Iranians Dial Up Presence in Syria," *The Wall Street Journal*, September 16, 2013.

(<http://online.wsj.com/news/articles/SB10001424127887323864604579067382861808984>)

<sup>23</sup> Ali Alfoneh, "Iran's Strategy in Syria," *FDD Policy Brief*, September 19, 2013.

<http://defenddemocracy.org/media-hit/irans-strategy-in-syria/>. See also Karim Sadjadpour, "Iran's Unwavering Support to Assad's Syria," *Combating Terrorism Center* (West Point), August 27, 2013.

<http://www.ctc.usma.edu/posts/irans-unwavering-support-to-assads-syria>

<sup>24</sup> Farnaz Fassihi, Jay Solomon and Sam Dagher, "Iranians Dial Up Presence in Syria," *The Wall Street Journal*, September 16, 2013.

(<http://online.wsj.com/news/articles/SB10001424127887323864604579067382861808984>)

<sup>25</sup> For example, Luis Ramirez "US Defense Chief Warns Against Military Strike on Iran," *VOA*, November 10, 2011. (<http://www.voanews.com/content/us-defense-chief-warns-against-military-strike-on-iran--133659028/147996.html>)

Adam Entous, Julian E. Barnes and Jay Solomon, "U.S. Warns Israel on Strike," *The Wall Street Journal*, January 14, 2012.

([http://online.wsj.com/news/articles/SB10001424052970204409004577159202556087074?mod=WSJ\\_hp\\_MIDDLENexttoWhatsNewsSecond](http://online.wsj.com/news/articles/SB10001424052970204409004577159202556087074?mod=WSJ_hp_MIDDLENexttoWhatsNewsSecond))

Katarzyna Klimasinska and Danielle Ivory, "Israeli Attack on Iran Would Be Destabilizing, Joint Chiefs' Dempsey Says," *Bloomberg*, February 19, 2012.

(<http://www.bloomberg.com/news/2012-02-18/israeli-attack-on-iran-would-be-destabilizing-joint-chiefs-dempsey-says.html>)

decision to shrink away from threat of military force against the Assad regime in Syria in September also diminished U.S. credibility. With enhanced economic measures and the military option off the table, the Obama administration is now hoping it can constrain the nuclear ambitions of the Islamic Republic by diplomacy alone, leading to a verification and inspection regime based on trust with an Iranian leadership that has a three decades-long track record of utter mendacity.

To rationalize this decision to conclude an interim nuclear deal that falls well short of even the *de minimis* requirements recommended by nuclear experts,<sup>26</sup> the Obama administration is betting on the hope that Rouhani is a true “pragmatist.”<sup>27</sup> It is said that the White House negotiation theory assumes that sanctions relief and minimalist nuclear demands will sideline IRGC hardliners and give Rouhani the political space to sell a more comprehensive nuclear deal to his boss, Supreme Leader Ali Khamenei.

Historically, banking on Iranian “pragmatism” has never paid off. “Pragmatism” doesn’t make Iranian leaders less committed to an atomic weapon, less anti-American, or more averse to viewing terrorism as statecraft. All the major players in Iran’s nuclear weapons program, including Rouhani’s patron Ali Akbar Hashemi Rafsanjani,<sup>28</sup> the former major-domo of the political clergy and father of Iran’s nuclear program, Supreme Leader Ali Khamenei, and even the firebrand Mahmoud Ahmadinejad, were politically pragmatic when circumstances required it. Like the others, Rouhani wants both the bomb *and* sanctions relief.

### ***The Proposed Geneva Deal Will Not Prevent the Nuclearization of Iran***

Iranian leaders went to Geneva last week for one reason: to test Barack Obama’s mettle. Had it been signed this past weekend, the Geneva deal would have ignored Iran’s history of nuclear deception and allowed Tehran to retain the essential elements of a long-standing nuclear weapons program.

Obama administration officials know Rouhani is lying when he says that the Islamic Republic has never had any intention of building an atomic weapon. Defecting Iranian nuclear engineers told U.S. officials in the late 1980s that the mullahs’ program, then hidden, was designed exclusively for such arms. 19,000 centrifuges, a heavy-water plant, a robust ballistic missile program, and alleged testing of nuclear trigger technology —

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<sup>26</sup> Institute for Science and International Security, “Determining the Irreducible Elements of an Interim Agreement with Iran: A Freeze Plus,” November 5, 2013. (<http://isis-online.org/isis-reports/detail/irreducible-elements-of-an-interim-agreement-with-iran/>)

<sup>27</sup> Rouhani is often called a “pragmatist” in Western media. For example see, Jason Rezaian and Joby Warrick, “Moderate cleric Hassan Rouhani wins Iran’s presidential vote,” *Washington Post*, June 15, 2013. ([http://www.washingtonpost.com/world/iranians-await-presidential-election-results-following-extension-of-polling-hours/2013/06/15/3800c276-d593-11e2-a73e-826d299ff459\\_story.html](http://www.washingtonpost.com/world/iranians-await-presidential-election-results-following-extension-of-polling-hours/2013/06/15/3800c276-d593-11e2-a73e-826d299ff459_story.html))

<sup>28</sup> Max Fisher, “Rafsanjani’s disqualification follows tumultuous relationship with Iran’s supreme leader,” *Washington Post*, May 22, 2013. (<http://www.washingtonpost.com/blogs/worldviews/wp/2013/05/22/rafsanjani-disqualification-follows-tumultuous-relationship-with-irans-supreme-leader/>)

everything Western intelligence services have tracked since then matches those early revelations.

Thus, U.S. participation in the negotiations doesn't appear to be premised on an expectation of Iranian veracity. If it were, President Obama wouldn't have sent Secretary of State John Kerry to Geneva until Tehran had come clean about its past deceptions. Even the behavior of South Africa's apartheid government — total transparency about the militarization of its atomic program — isn't expected from Iran.

Our low expectations stem from fear. Washington isn't willing to go to war again in the Middle East, even to defend our national security, and the Iranians know it. The White House continues to warn that if the U.S. and our allies are too "maximalist" in our demands, the talks will fail.<sup>29</sup> Ask too much — the suspension of all enrichment and reprocessing as demanded by five U.N. Security Council resolutions — and the Iranians may walk away from the table. The problem is that the Administration is not even prepared to propose what nuclear expert David Albright calls "irreducible minimum" conditions — the five bare minimum conditions required to delay Iran's dual-pathways to uranium and plutonium bombs, and to mitigate the risk of secret Iranian enrichment facilities.<sup>30</sup> Those conditions include:

- 1) Iran must halt all centrifuge installation and disable the centrifuge modules beyond the three holding the 9,000 IR-1 centrifuges.
- 2) Iran must halt all production of 20% enriched uranium and convert or ship all 20% enriched uranium to oxide or out of the country.
- 3) Iran must halt the construction of the Arak heavy-water reactor.
- 4) Iran must accept new inspection/monitoring requirements, including cameras at all centrifuge plant locations or daily inspections.
- 5) Iran must freeze all centrifuge manufacturing immediately.

Contrary to the Albright irreducible deal, the Geneva deal reportedly<sup>31</sup> did not demand that Iran remove or disable any other centrifuges;<sup>32</sup> it did not require Iran to address

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<sup>29</sup> Undersecretary Wendy Sherman: "So, you know, a negotiation begins with everybody having their maximalist position. And we have ours, too, which is they have to meet all of their obligations under the NPT and the U.N. Security Council resolutions.... And they have their maximalist position, and then you begin a negotiation." Senate Foreign Relations Committee Hearing on Iran's Nuclear Program, October 3, 2013, (<http://www.cq.com/alertmatch/198049068?uid=congressionaltranscripts-4356017>)

<sup>30</sup> Institute for Science and International Security, "Determining the Irreducible Elements of an Interim Agreement with Iran: A Freeze Plus," November 5, 2013. (<http://isis-online.org/isis-reports/detail/irreducible-elements-of-an-interim-agreement-with-iran/>)

<sup>31</sup> David Blair, "Iran nuclear deal hangs in the balance in Geneva," *The Telegraph*, November 9, 2013. (<http://www.telegraph.co.uk/news/worldnews/middleeast/iran/10438265/Iran-nuclear-deal-hangs-in-the-balance-in-Geneva.html>)

centrifuge manufacturing, the ongoing production of thousands of new and more efficient centrifuges,<sup>33</sup> (a key element to Iran's secret enrichment program); and, as the French objection made clear, it did not roll back the plutonium nuclear pathway, instead permitting continued construction at Arak.<sup>34</sup> Indeed, the proposed Geneva deal would have allowed Iran to maintain a still-dangerous uranium breakout capacity with enough centrifuges to move, at a time of its choosing, to weaponize uranium. Put simply, every Iranian nuclear concession would have been easily reversible in a very short time period.

In other words, the Obama administration offered Iran an “impossible-to-say-no-to” deal instead of using its extensive sanctions leverage to demand the suspension of all enrichment and reprocessing as required by five U.N. Security Council resolutions.

### ***The Pre-emption of U.S. Sanctions Policy***

Providing significant sanctions relief to the Iranians at this point is a mistake. The existing sanctions regime works because energy companies, financial institutions, insurers, shippers, and others have cut their business ties with Iran because they believe that the U.S. will enforce sanctions against violators. If the United States allowed sanctionable activities to occur without consequence, the floodgates could open. Companies that had chosen to cease activity in Iran rather than risk U.S. actions would re-enter the Iranian energy, shipping, and financial sectors. This would yield a massive financial windfall for Iran.

The efficacy of sanctions has always been built upon a strategy of escalation, where an ever-expanding web of restrictions scared off foreign business that wanted to invest in Iran. Sanction violators, of which there are more than the administration has punished, didn't really matter because Washington (Congress, really) created an impression that it intended to envelop Iran with an economic minefield.

The impact of sanctions has been as much psychological as it has been legal. So, when the administration starts reducing sanctions for little in return, the general impression abroad—reinforced by French objections to the soft American position in Geneva—is that the White House's will is declining. Especially now, the administration will have to sanction foreign companies, even those from our European allies, to keep the psychological dynamic from reversing. Moreover, the Administration will also have to dramatically ratchet up its supervision of the legitimate humanitarian trade channels with Iran, to prevent the abuse of these pathways.

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<sup>32</sup> Laurence Norman and Jay Solomon, “Iran Nuclear Talks End Without Deal,” *The Wall Street Journal*, November 9, 2013.

(<http://online.wsj.com/news/articles/SB10001424052702303309504579187474244929100>)

<sup>33</sup> Karl Penhaul, Elise Labott and Greg Botelho, “No deal on Iran's nuclear program, despite 'concrete progress,’” *CNN*, November 10, 2013. (<http://www.cnn.com/2013/11/09/world/meast/iran-nuclear-talks/>)

<sup>34</sup> Julian Borger and Saeed Kamali Dehghan, “Iran nuclear negotiations at crucial juncture over Arak reactor,” *The Guardian*, November 9, 2013. (<http://www.theguardian.com/world/2013/nov/09/iran-nuclear-negotiations-arak-reactor-crucial>)

Tehran, meanwhile, senses that the sanctions regime is crumbling.<sup>35</sup> This is due to the fact that the Obama administration had already offered extensive sanctions relief before the two rounds of Geneva negotiations had begun. In anticipation of sanctions giving way, the Iranian regime is now encouraging companies to return to Iran, with a number beginning discussions on new business deals.

In many ways, the administration has already started to dismantle the sanctions regime. The administration eased the pressure on Iran by slowing down the pace of designations since the election of Rouhani.<sup>36</sup> The administration also blocked Senate legislation; tough new legislation has been languishing in the Senate Banking Committee for months, despite the passage of the Nuclear Iran Prevention Act by a vote of 400-20 in July by the House of Representatives.

Legislators are growing concerned. They know that the administration resisted some of their best sanctions ideas in the past, including those that have cut Iranian oil exports in half. Congress also recognizes that a decision not to enhance sanctions is equivalent to a willingness to diminish them.

The fact is, sanctions require constant updating and vigorous enforcement. Without new legislation that closes loopholes and shuts down new Iranian circumvention techniques, Iran continues to create front companies and concoct sanctions-busting schemes, bringing Iran that much closer to the bomb. This includes black-market oil sales estimated at 150,000-200,000 barrels per day, concealing illicit financial transactions as permissible humanitarian purchases, incorporating Iranian banks like Mir Bank in friendly jurisdictions like Russia,<sup>37</sup> and overturning European sanctions by courts demanding access to classified intelligence.<sup>38</sup> These are just a few recent examples.

### ***The Dollar Value of the Proposed Sanctions Relief at Geneva***

In addition to the administration's decision to hold off on new sanctions, the sanctions relief package offered at Geneva, if ultimately approved, will rescue Iran's struggling economy. Based on open source reporting, and an analysis by the Foundation for Defense of Democracies, the dollar value of the proposed sanctions relief at Geneva could yield Iran a minimum of \$20 billion or more through the repatriation of frozen Iranian assets, gold transfers to Iran in exchange for its oil and natural gas sales, petrochemicals exports, and the lifting of sanctions on the Iranian auto sector. Providing \$20 billion in repatriated cash to the regime could hardly be considered "modest," as some have described it.

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<sup>35</sup> Steve Mufson, "Iran tests waters for Western investment in oil exports," *Washington Post*, November 9, 2013. ([http://www.washingtonpost.com/business/economy/iran-tests-waters-for-western-investment-in-oil-exports/2013/11/09/d3928a14-4959-11e3-b6f8-3782ff6cb769\\_story.html](http://www.washingtonpost.com/business/economy/iran-tests-waters-for-western-investment-in-oil-exports/2013/11/09/d3928a14-4959-11e3-b6f8-3782ff6cb769_story.html))

<sup>36</sup> Eli Lake and Josh Rogin, "Obama's Secret Iran Détente," *The Daily Beast*, November 8, 2013 (<http://www.thedailybeast.com/articles/2013/11/08/exclusive-obama-s-secret-iran-d-tente.html>)

<sup>37</sup> Benoît Faucon, "U.S. Warns Russia on Iranian Bank," *The Wall Street Journal*, December 12, 2012. (<http://online.wsj.com/news/articles/SB1000142412788732330604578145071930969966>)

<sup>38</sup> Justyna Pawlak, "Insight: How European courts are dismantling sanctions on Iran," *Reuters*, July 15, 2013. (<http://www.reuters.com/article/2013/07/15/us-iran-nuclear-courts-insight-idUSBRE96E0LS20130715>)

**Financial Relief:** The Obama administration has offered what it has described as “limited, temporary, and reversible sanctions relief”<sup>39</sup> that does not undermine the “core sanctions architecture,” and could be “turned on or off” quickly.<sup>40</sup>

This is a one-time repatriation of Iranian assets that have been trapped overseas as a result of financial sanctions. Reportedly, the proposed Geneva deal included an offer to release \$3 billion of these assets back to Iran.<sup>41</sup> Other public sources indicated that the P5+1 was contemplating the release of trapped oil funds valued at over \$50 billion,<sup>42</sup> through installment payments that could add significantly to this amount.

**Gold Sanctions Relief:** The deal on the table reportedly afforded Iran the ability to resume the export of precious metals. Based on trade data compiled by the Foundation for Defense of Democracies and Roubini Global Economics,<sup>43</sup> gold imports from Turkey to Iran in 2012 reached as high as \$1.6 billion per month. Using this figure as a guide, if gold sanctions relief is given for six months in the period leading up a possible final nuclear agreement, Iran has the potential to pocket at least \$9.6 billion in gold sales.

**Petrochemical Sanctions Relief:** According to a recent *Business Monitor International* report, Iran exported \$11.2 billion last year in petrochemical products and projects an increase of another \$1 billion next year.<sup>44</sup> If petrochemical sanctions relief is provided, using these numbers as a guide, Iran could enjoy a windfall of \$5-6 billion over six months.

**Automotive Sanctions Relief:** Under U.S. sanctions since June 2013,<sup>45</sup> Iran’s auto sector is inextricably linked to Iran’s nuclear program because of its involvement with the Islamic Revolutionary Guard Corps and Iran’s procurement networks and sanctions

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<sup>39</sup> “Sanctions relief for nuclear concessions: 6 world powers negotiate with Iran,” *Associated Press*, November 7, 2013, ([http://www.washingtonpost.com/world/middle\\_east/sanctions-relief-for-uke-concessions-6-world-powers-sit-down-at-negotiating-table-with-iran/2013/11/07/24407aec-4799-11e3-95a9-3f15b5618ba8\\_story.html](http://www.washingtonpost.com/world/middle_east/sanctions-relief-for-uke-concessions-6-world-powers-sit-down-at-negotiating-table-with-iran/2013/11/07/24407aec-4799-11e3-95a9-3f15b5618ba8_story.html))

<sup>40</sup> Dan Robinson, “White House Stresses Reversibility of Potential Agreement with Iran,” *VOA*, November 7, 2013. (<http://www.voanews.com/content/white-house-stresses-reversibility-of-potential-agreement-with-iran/1786053.html>)

<sup>41</sup> “In Geneva, the French hold out for tougher conditions on Iran,” *Times of Israel*, November 9, 2013, (<http://www.timesofisrael.com/world-powers-set-for-new-round-of-iran-uke-talks/>)

<sup>42</sup> Louis Charbonneau and Yeganeh Torbati, “Iran nuclear deal unlikely as split emerges in Western camp: diplomats,” *Reuters*, November 9, 2013. (<http://www.reuters.com/article/2013/11/09/us-iran-nuclear-idUSBRE9A804X20131109>)

<sup>43</sup> Gary Clark, Rachel Ziemba and Mark Dubowitz, “Iran’s Golden Loophole,” *Foundation for Defense of Democracies and Roubini Global Economics*, May 13, 2013. ([http://www.defenddemocracy.org/stuff/uploads/documents/FDD\\_RGE\\_Iran\\_Gol\\_Report\\_May\\_2013\\_FI\\_NAL\\_2.pdf](http://www.defenddemocracy.org/stuff/uploads/documents/FDD_RGE_Iran_Gol_Report_May_2013_FI_NAL_2.pdf))

<sup>44</sup> “Iran Petrochemicals Report,” *Business Monitor International*, August 2013. (Accessed via ProQuest). (<http://www.marketresearch.com/Business-Monitor-International-v304/Iran-Petrochemicals-Q4-7781548/>)

<sup>45</sup> The White House Press Release, “Executive Order -- Authorizing the Implementation of Certain Sanctions Set Forth in the Iran Freedom and Counter-Proliferation Act of 2012 and Additional Sanctions with Respect To Iran,” June 3, 2013. (<http://www.whitehouse.gov/the-press-office/2013/06/03/executive-order-authorizing-implementation-certain-sanctions-set-forth-i>)

evasion.<sup>46</sup> During a seven-month period in 2012, before the sanctions were imposed, Iran exported approximately \$1.4 billion for its auto industry.<sup>47</sup> Thus, if the administration provides automotive sanctions relief, this could be worth approximately \$1.3 billion to Iran over a six-month period.

**The Bottom Line:** Iran currently has approximately \$80 billion in foreign exchange reserves. Of those funds, \$10 billion is frozen, \$20 billion is fully accessible, and \$50 billion is only semi-accessible for barter trade in escrow accounts in China, India, Japan, South Korea, and Turkey.<sup>48</sup> A deal that offers \$3 billion in cash, plus another \$16-17 billion, totaling \$20 billion in sanctions relief, would give a 25 percent boost to Iran's total foreign exchange reserves, bringing that number up to \$100 billion.

It would also double the amount of fully accessible foreign exchange reserves currently available, from \$20 to \$40 billion. If the P5+1 went further and released trapped oil funds valued at over \$50 billion, through installment payments, this would increase Iran's fully accessible reserves from \$20 billion to a staggering \$70 billion.

A massive sanctions relief windfall of \$20 billion or even more, granted in exchange for reversible nuclear concessions that do little to dismantle Iran's military-nuclear infrastructure, is exactly what Iran would need to relieve the pressure from sanctions and enhance its negotiating leverage in the run up to any final agreement.

### **Recommendations**

In his first 100 days in office, we have seen no evidence that President Rouhani's policies on the human rights front, in its Syria policy, or on the nuclear file represent a strategic shift on the part of the Iranian regime. If anything, his new government has changed its tone without changing any of the substance and instead has recommitted to nuclear deception in keeping with Rouhani's track record.

To this end, I offer the following recommendations:

***Escalate Sanctions:*** The proposed Geneva deal would have been a significant victory for the new Iranian president and would have set back the Obama administration's goal of stopping Iran's nuclear weapon ambitions. Instead of relaxing sanctions, we must match Iran's continued nuclear activity with continued sanctions efforts to exert more pressure on Iran. New legislation in Congress should close loopholes and shut down new Iranian circumvention techniques to prevent Tehran from simultaneously dodging sanctions and advancing its nuclear program.

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<sup>46</sup> Mark Dubowitz and Emanuele Ottolenghi, "Iran's Car Industry: A Big Sanctions Buster," *Forbes*, May 5, 2013. (<http://www.forbes.com/sites/energysource/2013/05/13/irans-car-industry-a-big-sanctions-buster/>)

<sup>47</sup> "Iran's car exports fall by 82.21 percent," *Trend*, October 12, 2013. (<http://en.trend.az/regions/iran/2200694.html>)

<sup>48</sup> Mark Dubowitz and Rachel Ziemba, "When Will Iran Run Out of Money?," Foundation for Defense of Democracies and Roubini Global Economics, October 2, 2013. (<http://defenddemocracy.org/media-hit/when-will-iran-run-out-of-money/>)

According to a study conducted by my organization, Foundation for Defense of Democracies, and Roubini Global Economics, while sanctions have had a dramatic effect on the Iranian economy, Iran's foreign exchange reserves and "off-book" assets remain at sufficient levels to enable Iran to muddle through for at least 12 months, if not longer.<sup>49</sup>

The United States should move forward with new financial sanctions to effectively lock up all of Iran's currency reserves held abroad – around \$80 billion and Iran's existing oil revenues, estimated to be an additional \$3.4 billion per month.<sup>50</sup> These sanctions would use the threat of U.S. financial penalties to persuade foreign banks to block Iranian access to – or use of – its overseas financial reserves for any purpose except permitted humanitarian trade, effectively shutting down non-humanitarian imports and possibly even collapsing the rial.

In particular, the U.S. and its allies should take the following actions to put further pressure on Iran's foreign exchange reserves and its balance of payments:

- 1) Sanction any financial institution that provides Iran access to, or use of, its foreign reserves. The U.S. should backdate this sanctions provision during the legislative process so that, regardless of when the final bill is signed by the president, financial institutions do not take steps before the final passage of legislation to provide Iran with access to frozen cash reserves;
- 2) Dramatically reduce permissible imports of Iranian crude products (especially as Iran continues to increase its black-market sales of crude and other oil products);
- 3) Require countries buying Iranian crude to dramatically reduce their exports of non-humanitarian commercial goods to Iran;
- 4) Require a specified percentage of Iran's escrow funds be spent only on humanitarian goods (e.g., certain food, medicine, and medical devices);
- 5) Blacklist additional sectors of the Iranian economy owned or controlled by the government of Iran and/or the IRGC, including the mining, engineering and construction sectors;
- 6) Vigorously enforce gold sanctions to deny Iran access to gold to replenish its FX reserves;
- 7) Impose tighter sanctions on non-oil Iranian commercial exports;
- 8) Expand the definition of crude oil sanctions to include all oil products; and,

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<sup>49</sup> Ibid.

<sup>50</sup> Marjorie Olster, "US: Iran Can't Access Much Oil Income," *Associated Press*, August 30, 2013. (<http://bigstory.ap.org/article/apnewsbreak-us-iran-cant-access-much-oil-income>)

- 9) Impose additional sanctions against the holdings of Iran's *bonyads* and investment funds, and entities owned and or controlled by the IRGC, the Quds Force, the Supreme Leader, and other entities which continue to engage in human rights abuses and terrorist activities inimical to US interests and values.

***Require Meaningful Iranian Nuclear Concessions:*** As Geneva demonstrated, there is great danger in engaging in an interim process with Iran where significant sanctions concessions – through the administration's blocking of new sanctions and the provision of \$20 billion or more in hard currency relief – are granted in exchange for nuclear concessions that don't adequately roll-back Iran's nuclear weapons program. Any interim deal must demand, at a minimum, that Iran:

- 1) Cease all enrichment and reprocessing as required by multiple U.N. Security Council resolutions;
- 2) Disable all of its existing centrifuges, cease all centrifuge manufacturing and implement an inspection regime of all centrifuge manufacturing sites. Without these concessions, the regime retains a dangerous breakout capacity and could easily build hard-to-detect clandestine facilities with small cascades with advanced centrifuges;
- 3) Cease all construction and work at the Arak heavy-water reactor: Any agreement should prohibit Iran from continuing work on its Arak heavy-water reactor. By allowing Iran to continue construction of the Arak reactor over the next six months, Tehran will gain an extra six months to develop the capacity to produce a plutonium bomb;
- 4) Export Iran's 20 percent-enriched uranium stockpile; and,
- 5) Provide full disclosure of all past weaponization research, full implementation of the Non-Proliferation Treaty's Additional Protocol, and agreement to the inspection of any military or Revolutionary Guard site suspected of harboring nuclear research.

***Offer Smart Non-Sanction Financial Relief:*** The sanctions relief offered up last week in Geneva gave too much. It was not reversible. It had no mechanism to punish Iran if it cheated. Indeed, the deal would have dramatically diminished American economic leverage, putting the Obama administration in a worse position to negotiate an acceptable comprehensive and final deal. Indeed, the only irreversible part of the sanctions relief on the table was the damage this deal would have done to the international effort to constrain Iran's illicit economic activity.

There is a better approach that would enhance Western negotiating leverage, while still offering relief if Iran were to verifiably and irreversibly dismantle its military-nuclear program.

First, while keeping all existing sanctions in place, Iran should be given an ultimatum: (1) Freeze all uranium enrichment at Natanz and Fordow – where nuclear experts estimate that Iran is no more than eight months from achieving an undetectable nuclear breakout; and, (2) Suspend all work on the heavy-water reactor at Arak, where the IAEA remains concerned that Iran could soon reprocess plutonium for a bomb. In exchange for these two Iranian moves, the United States could freeze implementing additional sanctions. If Iran rejected this “freeze for freeze,” it should face immediate and crippling new sanctions.

These new sanctions should encourage foreign banks to freeze all of Iran’s overseas funds, estimated to be around \$80 billion, and turn off the spigot of Iran’s existing oil revenues, estimated to be an additional \$3.4 billion per month. These sanctions would have a devastating impact on the Iranian economy, cutting off the funds Iran needs to pay for its imports and support its currency.

These new measures don’t need to be permanent. Iran should be able to end its own financial isolation – but only in exchange for irreversible nuclear concessions that dismantle the entire military-nuclear program.

However, unfreezing Iranian assets unconditionally is a bad idea, particularly if Iran can use those funds for proliferation and terrorism. That’s why Tehran only should be permitted to transfer funds from escrow accounts in China to escrow accounts in Germany and other European countries, for example. Tehran has an estimated \$20 billion in accounts in China but can’t find enough non-sanctionable Chinese goods to buy. In contrast, Tehran likes to shop in Germany.

If Iran cheats, and doesn’t verifiably dismantle its military-nuclear program, including coming clean with the IAEA, or if Iran uses the German escrow funds to buy sanctioned goods, these funds should snap back, like a rubber band, and be blocked again.

All core sanctions should remain in place, in case the Iranian regime falls out of nuclear compliance, as it has done in the past, and only until it demonstrates that it is acting in good faith. This is an economic enforcement mechanism to support any verification and inspection regime that can be used more frequently than the threat of military strikes to punish Iran for noncompliance. The credibility of U.S. military strikes as an enforcement mechanism has already been diminished as a result of the Obama administration’s Syria policy and its repeated warnings that U.S. or Israeli strikes against Iranian nuclear facilities could have grave consequences for U.S. security interests.

Given his past nuclear mendacity, Supreme Leader Ali Khamenei should be expected to cheat. And that’s why a freeze, a big stick, and a carrot tied to a rubber band, is a better negotiating strategy than unilateral sanctions relief in exchange for meaningless nuclear concessions or haggling with the mullahs over the price of every minor Iranian compromise.

Thank you for inviting me to testify today. I look forward to your questions.