

**Written Testimony of Jacob J. Lew, Secretary of the Treasury
United States Senate Committee on Foreign Relations
July 23, 2015**

Chairman Corker, Ranking Member Cardin, thank you for the opportunity to speak today about the Joint Comprehensive Plan of Action (JCPOA) between the P5+1 and Iran, a historic deal that will ensure that Iran's nuclear program will be exclusively peaceful. A foreign policy decision of such significance deserves careful, detailed, and public analysis and hearings like this one are central to that review. I am confident that a full and fair debate on the merits will make it clear that this deal will strengthen our national security and that of our allies.

Secretary Kerry and Secretary Moniz have detailed how the deal effectively cuts off all of Iran's pathways to a nuclear weapon and ensures the inspections and transparency necessary to verify that Iran is complying. I will focus on describing how the international sanctions coalition that the United States and our partners built over a nearly a decade — combined with hard-nosed diplomacy and a credible military deterrent — allowed us to secure far-reaching and unprecedented nuclear concessions from Iran. I will also discuss the nature of the sanctions relief contained in this deal, and how the JCPOA is structured to maintain pressure on Iran to fulfill its commitments. Finally, I want to describe the powerful sanctions that will remain in place to counter a range of malign Iranian activity outside of the nuclear sphere — most notably its active support for terrorism, its ballistic missiles program, destabilizing regional activities, and human rights abuses. The Administration will continue to wield these measures in a strategic and aggressive manner and will work with our allies in the region to coordinate and intensify the impact of these tools.

The Impact of Sanctions on Iran's Economy

Iran would not have come to the negotiating table were it not for the powerful array of U.S. and international sanctions. These sanctions made tangible for Iran's leaders the costs of flouting international law, cutting them off from world markets and crippling their economy. The U.S. government — Congress and the Executive Branch — stood at the forefront of this effort across two administrations, successfully pushing for four tough UN Security Council resolutions and deploying a web of new and far-reaching U.S. sanctions that ultimately persuaded the Iranian leadership, after years of intransigence, to come to the table prepared to roll back its nuclear program.

To see the impact of these sanctions, consider that Iran's economy today is around 20 percent smaller than it would have been had Iran remained on its pre-2012 growth trajectory. This means that even if Iran returns to that pre-2012 growth rate, it would take until 2020 for Iran's GDP to reach the level it would have been last year absent sanctions.

Our sanctions have cost Iran more than \$160 billion since 2012 in oil revenue alone. Iran's oil exports were cut by 60 percent, and have been held at those reduced levels for the past two years. And Iran's designated banks, as well as its Central Bank, were cut off from the world. Since 2012, Iran's currency, the rial, has declined by more than 50 percent. Its inflation rate reached as high as 40 percent, and remains one of the highest in the world.

EMBARGOED UNTIL DELIVERY

We have maintained this pressure throughout the last eighteen months of negotiations. During the negotiation period alone, our oil sanctions deprived Iran of \$70 billion in oil revenue. And Iran's total trade with the rest of the world remained virtually flat.

The international consensus and cooperation to achieve this sanctions pressure was vital. While views on Iran's sponsorship of groups like Hizballah and its interventions in places like Yemen and Syria differ markedly around the world, the world's major powers have been — and remain — united that Iran cannot be allowed to pursue a nuclear weapons capability. That unity of purpose produced the UN Security Council resolutions and national-level sanctions in Japan, Australia, Switzerland, Canada, and many other jurisdictions. In all of these cases, the sanctions aimed to deliver a change in Iran's nuclear behavior, while holding out the prospect of relief if Iran addressed the world's concerns about its nuclear program.

Sanctions Relief under the JCPOA

As you have heard from Secretaries Kerry and Moniz, the JCPOA closes off all of Iran's pathways to nuclear weapons capability and, critically, gives us the access to ensure compliance and the leverage to re-impose sanctions if Iran breaches the deal. Should Iran fully comply with the terms of the JCPOA, and should the IAEA verify this compliance, phased sanctions relief will come into effect.

To be clear, about 90 days from now when the JCPOA goes into effect, there will be no immediate changes to UN, EU or U.S. sanctions. Iran will not receive any new relief until it fulfills all of the key nuclear-related commitments specified in the deal, thereby pushing back its breakout time to at least one year. Until Iran does so, we will simply extend the limited JPOA relief that has been in place for the last year and a half.

Should Iran fulfill all of the necessary conditions, we will have reached what it is known as "Implementation Day," and phased relief will begin. At that time, the United States will suspend nuclear-related secondary sanctions. These are the sanctions that primarily target third-country parties conducting business with Iran — including in the oil, banking, and shipping sectors. Relief from these restrictions will be significant, to be sure. But a number of key sanctions will remain in place. Our primary trade embargo will continue to prohibit U.S. persons from investing in Iran, importing or exporting most goods and services, or otherwise dealing with most Iranian persons and companies. For example, Iranian banks will not be able to clear U.S. dollars through New York, hold correspondent account relationships with U.S. financial institutions, or enter into financing arrangements with U.S. banks. Iran, in other words, will continue to be denied access to the world's largest financial and commercial market.

The JCPOA makes only minor allowances to this broad prohibition. These include allowing for the import of foodstuffs and carpets from Iran; the export on a case-by-case basis of commercial passenger aircraft and parts to Iran — which has one of the world's worst aviation safety records — for civilian uses only; and the licensing of U.S.-owned or controlled foreign entities to engage in activities with Iran consistent with the JCPOA and U.S. laws.

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The United States will also maintain powerful sanctions targeting Iran's support for terrorist groups such as Hizballah and its sponsors in Iran's Islamic Revolutionary Guard Corps—Quds Force; its destabilizing support to the Houthis in Yemen; its backing of Assad's brutal regime; its missile program; and its human rights abuses at home. Just this week, Treasury sanctioned several Hizballah leaders, building on designations last month that targeted the group's front companies and facilitators. We will not be providing any sanctions relief to any of these lines of activity and will not be delisting from sanctions the IRGC, the Quds Force, or any of their subsidiaries or senior officials.

I also want to emphasize that secondary sanctions imposed by Congress will continue to attach to these designations, providing additional deterrence internationally. For example, a foreign bank that conducts or facilitates a significant financial transaction with Iran's Mahan Air or Bank Saderat will risk losing its access to the U.S. financial system. These sanctions will continue to be in place and enforced; they are not covered by the JCPOA.

Snapback

While our focus is on successfully implementing this deal, we must guard against the possibility that Iran does not uphold its side of the deal. That is why, should Iran violate its commitments once we have suspended sanctions, we have the mechanisms ready to snap them back into place. For U.S. sanctions, this can be done in a matter of days. Multilateral sanctions at the UN also can be re-imposed quickly, through a mechanism that does not allow any one country or any group of countries to prevent the reinstatement of the current UN Security Council sanctions if Iran violates the deal. So, even as Iran attempts to reintegrate into the global economy, it will remain subject to sanctions leverage.

Countering Iran's Malign Activities

As noted above, Iran's malign activities continue to present a real danger to U.S. interests and our allies in the region, beyond the nuclear file. I have heard some argue that, until Iran ceases these activities, sanctions relief is premature, and that funds that Iran recovers could be diverted to these malign activities. I understand the concern well — no one wants to see the world's foremost sponsor of terrorism receive any respite from sanctions. But it is Iran's relationships with terrorist groups that make it so essential for us to deprive it of any possibility of obtaining a nuclear weapon. The combination of those two threats would raise the specter of what national security experts have termed the ultimate nightmare. If we cannot solve both concerns at once, we need to address them in turn. The JCPOA will address the danger of Iran's nuclear program — lowering the overall threat posture and freeing us and our allies to check Iran's regional activities more aggressively, while keeping our sanctions on support for terrorist activity in place. By contrast, walking away from this deal and seeking to extend sanctions would leave the world's leading sponsor of terrorism with a short and decreasing nuclear breakout time.

None of this is to say that we view the sanctions relief Iran will receive if it complies with the JCPOA with indifference. As the agency with primary responsibility for sanctions against Iran over the last three decades, we are keenly aware of its nefarious activities in the region and have invested years in devising and implementing sanctions to frustrate its objectives.

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That said, in gauging the impact of lifting these restrictions, we should be measured and realistic. These funds represent the bulk of Iran's foreign reserves — they are the country's long-term savings, not its annual budgetary allowance, and as a matter of financial management, Iran cannot simply spend them. Of the portion that Iran spends, we assess that Iran will use the vast majority to attempt to redress its stark economic needs. President Rouhani was elected on a platform of economic revitalization and faces a political imperative to meet those unfulfilled promises. Iran's needs are vast — President Rouhani faces well over half a trillion dollars in pressing investment requirements and government obligations. And Iran's economy continues to suffer from immense challenges — including perennial budget deficits, rampant corruption, and one of the worst business environments in the world. Put simply, Iran is in a massive hole from which it will take years to climb out.

In any event, we will aggressively target any attempts by Iran to use funds gained from sanctions relief to support militant proxies, including by continuing to enhance our cooperation with Israel and our partners in the Gulf.

Conclusion

The JCPOA is a strong deal — with phased relief in exchange for Iranian compliance and a powerful snap-back built in. Backing away from this deal, on the notion that it would be feasible and preferable to escalate the economic pressure and somehow obtain a capitulation — whether on the nuclear, regional, terrorism, or human rights fronts — would be a mistake. Even if one believed that continuing sanctions pressure was a better course than resolving the threat of Iran's nuclear program, that choice is not available.

The UN Security Council and our partners around the world agreed to impose costly sanctions against Iran for one reason — to put a stop to its illicit nuclear program. If we changed our terms now and insisted that these countries continue to impose those sanctions on Iran, despite the availability of a diplomatic solution to its nuclear program, they would balk. And we would be left with neither a nuclear deal nor effective sanctions. It is unrealistic to think that additional sanctions pressure would force Iran to totally capitulate — and impractical to believe that we could marshal a global coalition of partners to impose such pressure, after turning down a deal that our partners believe is a good one.

The terms of this deal achieve the purpose they were meant to achieve: blocking Iran's paths to a nuclear bomb. That is an overriding national security priority, and its achievement should not be put at risk — not when the prospect of an unconstrained Iranian nuclear program presents such a threat to America and the world.