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Blocking or Paving Tehran's Path to Nuclear Weapons?"

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Good morning. Chairman Royce, Ranking Member Engel, and distinguished members of the committee: Thank you for inviting me to appear before you today to discuss the negotiations over Iran's nuclear program. I am pleased to be here with my colleague from the State Department, Deputy Secretary Tony Blinken. I will focus my testimony on our sanctions posture with respect to Iran – the massive and mounting costs of pressure on Iran's economy today, our actions under the Joint Plan of Action to provide Iran with limited pockets of relief while maintaining the overall sanctions architecture, and, finally, how we are positioned to move forward in the sanctions lane if the negotiations either succeed or break down.

This is my first appearance before a Congressional committee in my new role as Acting Under Secretary of the Treasury, and I greatly appreciate your giving me the opportunity to testify here. The challenges posed by Iran constitute a core threat to our national security, and they have occupied the majority of my time for the last decade.

I can say honestly that I did not expect that to be the case when I joined the Treasury Department in 2004. At the time, Congress had just created TFI – a re-organization and refocusing of Treasury components – as part of the government-wide response to the terrible attacks of September 11th. That history is still embedded in our office's name, the "Office of Terrorism and Financial Intelligence." Stuart Levey was recruited from the Justice Department to be the first Under Secretary for TFI, and he asked me to join him when he moved over. Our mandate at the time was to track and disrupt the flows of funds to terrorist organizations, and we set our sights on the most dangerous groups, including al-Qa'ida, Lashkar-e Tayyiba, Hizballah, and Hamas.

Working alongside the tremendously talented counterterrorism professionals at Treasury and beyond, we pursued strategies at the micro and macro levels, both targeting individual financiers, donors, and conduits, as well as undertaking broader efforts to strengthen the resilience of financial systems worldwide and bring transparency to hawalas, charities, and exchange houses that had long functioned without meaningful oversight. That work continues to this day, of course, even as the threats evolve, and we are turning our hard-won experience to the significant challenge of ISIL, a terror group that is as barbaric as it is well-funded.

This work was what brought me to the Treasury Department, and it is what I expected would occupy most of my time at TFI. In 2006, though, TFI was asked to develop a strategy to dramatically intensify the pressure on Iran's government, in an attempt to counter a range of destabilizing Iranian behavior, most notably its failure to address the international community's concerns regarding its nuclear program. The challenge was daunting. The United States already had a broad trade and economic embargo against Iran, and the conventional wisdom at the time was that the United States was "sanctioned out," with little leverage left to exert on Iran. Under the strong leadership of Stuart Levey and then David Cohen, TFI proved otherwise. Indeed, the women and men of TFI devised and carried out a strategy that fundamentally altered Iran's economic standing in the world. A critical part of this strategy was working closely with foreign partners, particularly our European allies. In my time at Treasury, including my nine years leading the Office of Foreign Assets Control (OFAC), I have devoted most of my working hours to this effort.

By no means was Treasury alone in this campaign. From the beginning, our sanctions strategy relied upon the intrepid efforts of the U.S. intelligence community and its partners, since targeted sanctions cannot work without intelligence to guide them. The U.S. Mission to the United Nations successfully negotiated four U.N. Security Council resolutions that sharpened the global understanding of the threat posed by the Iranian nuclear program and set forth what nations across the world were expected to do in countering that threat. The State Department, here in Washington and at its embassies throughout the world, worked hand-in-glove with Treasury in helping our foreign partners enforce those resolutions and guard against evasion. A slew of enforcement and regulatory agencies, including the Justice Department, the Commerce Department, the Office of the Comptroller of the Currency, and the Fed, joined OFAC in pursuing a tough sanctions enforcement policy, deterring would-be evaders and leaving no doubt about our seriousness. And, perhaps most important, beginning in 2010, Congress brought the considerable power of the U.S. Legislature to this effort, broadening and deepening the impact of our sanctions, and pioneering new ways to incentivize foreign actors to distance themselves from problematic Iranian banks and firms.

The results were startling. Iran was subjected to mounting pressure that was notable as much for its intensity as for its international cohesion, and it imposed strains on Iran's economy that were visible from without and within. I will provide a closer look at the impacts of these sanctions and Iran's current economic prospects below. But there can be no doubt that this global, sustained campaign helped bring Iran to the negotiating table. As a result, today we at least have a chance of achieving a diplomatic resolution to one of the world's most vexing and persistent security threats.

Sanctions Impact to Date: Iran's Economy in 2015

As we enter a critical period in the P5+1 negotiations, I would like to provide a quick assessment of the current state of Iran's economy.

Iran's oil revenues are the starting point for any assessment, and the key factor in determining the health of the country's balance sheets and its overall economy. At the beginning of 2012, Iran was exporting roughly 2.5 million barrels of crude oil a day to some twenty jurisdictions. Today, Iran is exporting about 1.1 million barrels a day to only six customers. Because of this nearly 60 percent decline in Iran's oil exports, Iran lost more than $40 billion last year alone. (This sum is more than four times the total estimated value to Iran of the JPOA sanctions relief that year.) All in all, since 2012, our oil sanctions have denied Iran more than $200 billion in lost exports.

These massive losses have been compounded by the steep drop in global oil prices. Over the past year, the average price of a barrel of oil has fallen to about $60 per barrel today. As a result, Iran's chief export and revenue source is earning less than a quarter of what it was earning at its peak just three years ago.

As one might expect for an economy so dependent on oil revenues, Iran is struggling to sustain its fiscal standing. For Iran's upcoming fiscal year (March 2015 to March 2016), President Rouhani proposed a budget that assumed oil would sell for $72 per barrel and – at that aspirational level – his plan called for raising taxes, canceling subsidies, reducing contributions to Iran's sovereign wealth fund, and scrapping investment projects. If oil continues to sell below $72 per barrel, those cuts will need to be deepened.

Just as troubling for Iran is the fact that the reduced revenues that it does earn are not freely accessible. Spurred by a powerful act of Congress and our cooperation with foreign governments, banks across the world are holding Iran's foreign reserves under constraints, allowing releases only for limited purposes, with an eye toward promoting the success of the current negotiations.

Without ready access to its hard currency reserves, Iran has been limited in its ability to stabilize the rial. Under pressure from a number of directions, the rial has depreciated by about 52 percent since January 2012, including a fall of about 12 percent since the announcement of the JPOA in November 2013. This has made imported goods more expensive, caused upward pressure on inflation, and hurt the Iranian economy by causing significant uncertainty about future prices.

Beyond its energy sector, Iran remains subject to sanctions targeting its petrochemical, insurance, shipping, and shipbuilding sectors, as well as its ports and its trade in certain crucial metals and industrial materials. Nearly every source of foreign revenue for Iran is being squeezed.

And Iran's banking system is in peril, isolated from the international financial system, over-extended, and holding a high proportion of non-performing loans.

The bottom line is that, despite a recent uptick in Iran's GDP, Iran's economy remains under massive strain, and has no viable route to a broader recovery without relief from international sanctions.

Sanctions in the JPOA Period

The JPOA, reached by the P5+1 and Iran in November 2013, halted progress on Iran's nuclear program, rolled it back in key respects, and provided for enhanced access to and inspections of its nuclear facilities. As a result, it allowed the United States and our partners to pursue negotiations with the confidence that Iran was not simply buying time to advance its program under diplomatic cover.

In exchange for taking these verifiable steps, Iran received limited, targeted, and reversible relief from some defined sanctions. But the JPOA left in place the broader architecture of our nuclear sanctions – measures that have so effectively pressured Iran's banking, oil, trade, and transportation sectors. And, of course, the nuclear steps that Iran took under the JPOA did not alter the U.S. sanctions targeting Iran's support for terrorism or commission of human rights violations.

Going into the JPOA period, we knew that these negotiations would be intensely challenging and would require Iran to make difficult choices that it might not ultimately be prepared to make. For this reason we knew we needed to retain the general architecture of the sanctions throughout the JPOA period, and needed to actively combat Iranian attempts to evade the sanctions. Had the pressure eroded due to sanctions relaxation or unchecked attempts at evasion, Iran's incentive to make those difficult choices would likewise have diminished. And so, since the start of the JPOA period, the United States has taken action against nearly 100 Iran-related individuals and entities, combating sanctions evasion and other Iranian misconduct.

Our sanctions are not just words on the books – we vigorously enforce them. And that enforcement has been as tough as ever over the course of the JPOA, demonstrating plainly to the world that Iran is not open for business. During the JPOA period, we have imposed more than $450 million in penalties on violators of the Iran sanctions. We are also thankful to our foreign partners who continue to enforce the sanctions in place, as international unity remains key to a successful outcome in the negotiations.

We will not relent in these efforts, and we will continue to take action against anyone, anywhere, who violates or attempts to violate our sanctions. Iran's leaders know this, and accordingly know that their only hope for meaningful sanctions relief is to reach a comprehensive plan of action that addresses the international community's concerns about its nuclear program.

Next Steps

Creating intense economic pressure, on its own, was never the sanctions' ultimate purpose. The goal of the sanctions was to help bring Iran to the negotiating table, where, in exchange for demonstrating to the world the exclusively peaceful nature of its nuclear program and for accepting far-reaching constraints on that program, it would be able to receive relief from nuclear-related sanctions.

Now we are engaged in those negotiations, testing whether Iran is willing to take verifiable and concrete steps that will ensure that it cannot obtain a nuclear weapon. For this Administration, preventing Iran from obtaining a nuclear weapon is a national security priority of the highest order. As President Obama has made clear, time and again, we will do everything in our power to make sure that cannot happen.

The question is whether we can achieve that objective peacefully, a priority that I know this Committee shares.

As we speak, negotiators from the P5+1 are hard at work trying to secure a political framework for a comprehensive deal with Iran. We may get a deal; we may not. Regardless of whether or not the negotiations succeed, I want to assure this Committee that the Treasury Department, and the Administration more broadly, are prepared for what comes next.

If we are able to secure a comprehensive deal, we will structure the nuclear-related sanctions relief in a way that is staged and commensurate with verifiable steps on Iran's part. We believe that legislative sanctions should be suspended first before they are terminated by Congress, so that we continue to retain important leverage years into a deal. Put simply, Iran will not receive comprehensive relief from nuclear-related sanctions absent proof that it has concretely and verifiably carried out what is expected of it as part of a comprehensive deal.

Moreover, even if we are able to secure a nuclear deal with Iran, the United States will continue to counter Iran's support for terrorism, its commission of human rights abuses, and its destabilizing activities throughout the Middle East, including through the active use of our financial tools.

Alternatively, if we determine that a comprehensive deal with Iran cannot be obtained, the Administration, working with Congress, can move to ratchet up the pressure on Iran from sanctions. Over the past decade, we have developed tremendous insight into Iran's financial flows, its economy's stress points, and how it attempts to evade sanctions. Our team stands ready to raise the costs on Iran substantially should it make clear that it is unwilling to address the international community’s concerns. Close cooperation with our international partners will be critical should we have to go that route.

In either eventuality, we are committed to working with Congress to ensure that our sanctions continue to serve our national security goals, whether to ensure that Iran abides by the conditions of a deal if it can accept those conditions, or to raise the costs substantially if Iran demonstrates that further negotiations are futile.

Thank you again for inviting me to appear here today, and I look forward to addressing your questions.