



**Written Testimony of Richard Nephew
before the Senate Foreign Relations Committee on
“The Iran Nuclear Agreement: One Year Later”
July 14, 2016 at 10:00 a.m.**

Thank you, Chairman Corker, Ranking Member Cardin, and other distinguished members of this Committee for inviting me to speak here today. It is a privilege and an honor to speak to you once more on the issue of the Joint Comprehensive Plan of Action (JCPOA) reached between the United States, its negotiating partners in the P5+1 and EU, and Iran.

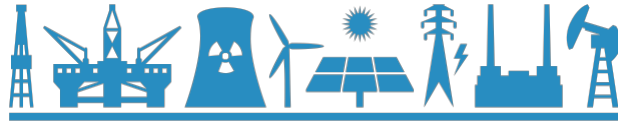
A year has passed since negotiations concluded on the text of the JCPOA. I appreciate the Committee’s decision to hold this hearing today in recognition of that fact. Anniversaries are good times to reflect in general and the Action phase of the JCPOA has largely taken place since I was last in this room. Much has been achieved and, in my view, the United States and our partners in the region are today far safer than we were just one year ago. In fact, it is not just my view: it also happens to be the view of Lt. Gen. Eisenkot of the Israeli Defense Forces as well as many other national security professionals in the United States, Israel and beyond.

But, my sense of satisfaction of having played some role in arresting Iran’s nuclear program should not suggest complacency. We have not yet dealt with all of the ways in which Iran poses a threat to the United States, our interests, and those of our friends and allies. Nor have we necessarily prevented Iran from possessing nuclear weapons for all time. The JCPOA has improved our situation significantly. It has laid a foundation for the future. But, there is more work to be done to ensure that its ambitions of preventing a nuclear arms race in the Middle East, bringing a modicum of stability to the region, and facilitating the emergence of a more constructive relationship between the United States and Iran can be achieved. In a paper I published in late May with Bob Einhorn, we laid out a series of specific recommendations that the United States ought to pursue in order to build on this foundation.¹ I will not dwell on those recommendations here, but it is vital to note that I see the JCPOA not as the end of an effort but rather the beginning of a much greater one.

And, of course, there is also much more work to be done in order to ensure that the JCPOA delivers on its principal, more immediate promises: that Iran will keep its nuclear program within its agreed limitations during the agreed timetables; that Iran will cooperate with monitoring and verification measures consistent with the JCPOA and its obligations under its agreements with the IAEA; and, that the United States, the European Union, and the UNSC provide the sanctions relief and economic engagement to which we committed ourselves.

I was asked to offer my perspective on the sanctions side in particular. However, before touching on those points, I want to make a few observations on the nuclear provisions of the JCPOA (mindful that it is constraining the Iranian nuclear program that remains the

¹ Einhorn, Robert and Richard Nephew. May 2016. “The Iran Nuclear Deal: Prelude to Proliferation in the Middle East?” Available at: <http://www.brookings.edu/~media/Research/Files/Reports/2016/05/iran-deal-regional-proliferation/The-Iran-Nuclear-Dealwebv4.pdf?la=en>



driving necessity for the deal and the subject of most of my time working in the U.S. government on Iran).

Nuclear

Thus far, Iran has fulfilled its part of the bargain. The IAEA verified on January 16, 2016, that Iran has:

1. Reduced its number of operational and installed centrifuges down to JCPOA levels;
2. Reduced its stocks of enriched uranium and heavy water down to JCPOA levels;
3. Begun the modification of the Arak heavy water research reactor such that it will be physically incapable of producing enough weapons-grade plutonium for even one nuclear weapon in less than four years; and,
4. Accepted enhanced IAEA monitoring provisions at its centrifuge storage and production sites, its uranium mines and mills, and other locations described in the JCPOA.²

In sum, as a result of the JCPOA, Iran's assessed breakout time using uranium has increased from 2-3 months to approximately one year and, using plutonium, to at least four years. Moreover, because of enhanced monitoring, we would have nearly the full balance of those breakout timelines to mount a response to Iran. As President Obama has made clear, we retained all of our options in the event of Iranian cheating on the deal, including the use of force.

Since the IAEA's initial report of January 16, it has issued two further reports. Both of these have confirmed that Iran is fulfilling its commitments, though with some implementation challenges (discussed below).^{3,4} Yet, these reports were not without controversy, largely stemming from the absence of some of the data that nongovernmental observers and organizations had become used to seeing in IAEA reports. In particular, the IAEA has been criticized for not publishing data on Iran's exact low-enriched uranium stockpile, which had become a normal attribute of IAEA reporting since Iran restarted uranium enrichment in 2007.⁵ The nature of this concern has focused less on whether the Iran was fulfilling its commitments and more on the degree of public transparency that the IAEA (and, by extension, the United States, Iran, and the JCPOA parties) was showing into Iran's nuclear program so as to permit "independent determination of Iran's compliance" with the

² International Atomic Energy Agency. January 16, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)."

<https://www.iaea.org/sites/default/files/gov-inf-2016-1.pdf>.

³ International Atomic Energy Agency. February 26, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231 (2015)."

<https://www.iaea.org/sites/default/files/gov-2016-8-derestricted.pdf>.

⁴ International Atomic Energy Agency. May 27, 2016. "Verification and Monitoring in the Islamic Republic of Iran in Light of United Nations Security Council Resolution 2231."

<https://www.iaea.org/sites/default/files/16/06/gov2016-23.pdf>

⁵ Albright, David, Serena Kelleher-Vergantini, and Andrea Stricker. February 26, 2016. "IAEA's First Post-Implementation Day Report: Key Information Missing."

http://www.isisnucleariran.org/assets/pdf/First_JCPOA_Post-Implementation_Day_Report_26Feb2016_Final.pdf.



JCPOA.⁶ In my view, it is reasonable for us to expect and to request more information from the IAEA and, for that matter, from Iran on the specifics of its nuclear program during this extended period of confidence-building under the JCPOA.

That said, the absence of particular details in the report should not be confused with lack of transparency on Iran’s part with international inspectors or with members of the P5+1. The IAEA has provided repeated assurances that it can verify Iran’s implementation of its nuclear commitments. The governments of the P5+1 have indicated their satisfaction with their own understanding of Iran’s nuclear program pursuant to the JCPOA, though some of them – the U.S. government included – have expressed a desire for more public accounting of Iran’s nuclear activities in the IAEA’s reports. But, ultimately, it is the degree to which the IAEA and member governments of the JCPOA understand what is going on that matters most, as the IAEA remains in a position to raise a flag should it find indications of Iranian cheating and the P5+1 can respond to any such noncompliance swiftly.

Moreover, this change in IAEA public reporting – while ill-advised at this sensitive juncture in JCPOA implementation – does match the more general approach taken by the IAEA in reporting on its member states’ nuclear activities. Pursuant to the provisions of safeguards confidentiality enshrined in IAEA safeguards agreements with each state, the IAEA is charged to keep “any information obtained by it in connection with the implementation of the Agreement” confidential.⁷ There can be exceptions, as indeed was the case with Iran from 2003-2015, and it would have been more confidence-enhancing for the IAEA (and for Iran) to have maintained a more detailed reporting template for the time being. But, the decision to revert to a more restrained – if still abnormal – approach to IAEA reporting on Iran is hardly the same thing as walking back the commitments made by the Obama Administration that the JCPOA would involve the most intrusive monitoring and transparency arrangements ever negotiated.

This is especially the case because, as the February 2016 report made clear, the IAEA has not been reluctant to report information indicating that Iran has broken the terms of the JCPOA. In that report, the IAEA found Iran had produced and then possessed slightly more than its JCPOA-allotted 130 metric tonnes of heavy water. Iran’s overage—which the IAEA measured at 0.9 metric tonnes—was then resolved by the export of 20 metric tonnes of heavy water seven days after the overage was identified.

This breach was not only modest in its import—as heavy water is not a nuclear weapons-usable commodity itself but rather a component in the production of plutonium for use in nuclear weapons—but also something that is entirely expected in the implementation of a deal of this sort. Iran will likely violate the terms of this provision again and perhaps similarly the provision dealing with low-enriched uranium (LEU) stocks because they are products of an ongoing process line that must be exported shortly after production. Any problem with shipping these commodities out of the country would lead to the potential for temporary excess in Iranian stocks of these materials. The real sensitivity in this regard is the degree to

⁶ Ibid.

⁷ IAEA Model Safeguards Agreement, Information Circular 153.

<https://www.iaea.org/sites/default/files/publications/documents/infcircs/1972/infcirc153.pdf>



which Iran believes that it can engage in these activities and not be caught. If nothing else, the heavy water incident suggests the opposite: the IAEA’s identification of the excess heavy water occurred quickly—Iran’s production of the 0.9 metric tonnes of excess heavy water occurred between January 16 and its identification on February 17—and Iran had to take swift remedial action to address the problem.

This informs my view of the likelihood of Iran pursuing a nuclear fuel cycle capability (or even a nuclear weapon itself) covertly. I believe that, should Iran seek nuclear weapons, it will absolutely seek to do so using undeclared nuclear facilities and undeclared nuclear material. The odds of being caught at declared facility are high and the risks of doing so are great. Moreover, Iran’s *modus operandi* over the past fifteen years has been to provide extensive transparency at its declared sites, largely in an attempt to confuse consideration of their nuclear program internationally through showmanship (such as multiple tours of Non-Aligned Movement (NAM) ambassadors through Natanz).

I believe that the transparency and monitoring provisions in the JCPOA will make it very difficult for Iran to construct a new nuclear facility in the country in secret, particularly given that any such facility will need to identify a source of nuclear material as well as the various devices and materials required to bring it online.⁸ The nuclear procurement channel established in the JCPOA and in UN Security Council Resolution (UNSCR) 2231 also provides some protection in this regard, as well as the potential for consequences for exporters that are incautious.

That said, it is always possible that this layered approach intended to deny Iran access to the necessary components of a covert site will fail. It may be that Iran has unknown stores of materials and equipment necessary to outfit a new site, or that it will be able to evade international export controls in order to acquire such a stockpile. It may also be possible that Iran has a fully complete, covert site waiting in the wings. To my knowledge, U.S. and partner intelligence services have yet to detect such a site and of course remain vigilant in their watching for any such indications to emerge. But, intelligence failures have happened and could happen again.

Intelligence can also be successful. Reports from Germany indicate that Iran sought nuclear-related goods via covert means throughout the negotiations of the JCPOA and may be continuing to do so now. It would not be surprising that Iran hedged its bets during the negotiations; after all, we did not end our sanctions on the nuclear program during that time. Germany has not reported any procurement efforts after January 16 (and, for that matter, neither has the United States, according to the State Department). But, if Iran were to engage in covert procurement now – in direct contravention of the terms of the JCPOA – then this would be a major threat to the integrity of the deal, even if intelligence reporting ultimately precludes illicit transfers. The United States should respond directly to any such violations, including by using its authority in the Procurement Working Group to deny any legitimate procurements while there are positive indications of Iranian cheating. The United

⁸ Nephew, Richard. September 2, 2015. “How the Iran Deal Prevents a Covert Nuclear Weapons Program.” Available at: https://www.armscontrol.org/ACT/2015_09/Feature/How-the-Iran-Deal-Prevents-a-Covert-Nuclear-Weapons-Program



States should use all of its authorities to ensure that, even if it causes difficulties, the JCPOA serves its fundamental purpose.

This takes me to the issue of inspector access to Iranian military sites. The JCPOA explicitly made this possible, in the event of questions raised about Iranian compliance with the terms of the deal and Iran's other obligations under its agreements with the IAEA. This right exists for a reason and it should be utilized if there is reliable, credible information pointing to Iranian violations of their obligations.

But, in this, there are three important clarifications. First, there has to be some indication that Iran is in breach of its obligations now. Information acquired that points to Iran's past nuclear weapons work is less relevant, if for no other reason than we know they pursued nuclear weapons in the past. True, it would be useful to know as much about that past effort as possible, if for no other reason than to help discriminate against ongoing work. But, even had the Iranians given us a full confession of their past work, the United States and its partners would still have held back some suspicion that Iran was not telling us the complete story. Consequently, there would always be a residual question in the minds of intelligence analysts whether information received points to historical work or present work. This is why intelligence analysts would also require far more information about what Iran is up to than just the identification of one or two particles of man-made uranium.

Second, the focus on military facilities is understandable, but misguided. Prior to 2002, Iran's uranium enrichment project took place in part at a warehouse in Tehran. If Iran were to restart its nuclear weapons program, it may decide to do so at a military facility. But, it may just as easily decide to do so at a civilian facility or one that, to all outward appearances, is civilian. Our focus ought to be less on gaining access to military sites for the purpose of gaining access to military sites and more on ensuring that if there are any credible indications of Iranian cheating, access is granted wherever those indications point. And our focus ought to be on ensuring that we have as much information as possible, from intelligence sources, IAEA reporting, open source data-streams, to accurately judge Iran's intentions as well as its capabilities.

Third, there is now and there always will be some element of risk that Iran's cheating will go unnoticed. To that end, there is now and there always will be some element of risk that Argentina, Brazil, South Africa, South Korea, Sweden, or Ukraine have started to pursue nuclear weapons. We all judge that risk to be much lower than with Iran because of the unique history and relationships that surround those countries. This is sensible. But, the risk is not zero.

For Iran, our perceived risk is high. So, we have engineered a deal to constrain their capabilities and improve transparency to help address that risk. But, no deal could reduce that risk to zero. There would always be some risk, even in an Iraq-in-the-1990s style inspections regime, that we were being cheated. It is worth noting that the pursuit of "zero risk" led to us to jump at shadows in Iraq. Even if every nuclear facility in Iran were to have been obliterated in the JCPOA, even if every gram of enriched uranium were to be shipped out, and even if every Iranian scientist involved in the former nuclear program were to be employed charting the movements of stars, the risk of further nuclear proliferation in Iran



would not be zero and while its present government exists, there would be people who believe Iran's nuclear weapons program was not only operational but closing on its goal.

Positive discrimination between actual attempts at noncompliance with the JCPOA and incidental implementation issues will be vital going forward on the nuclear side. It is important because an inability to determine whether Iran is cheating or just made a mistake could mean the difference between an incautious move to conflict and an overly cautious decision to treat every Iranian slip-up as just an accident. Time, care, and prudent assessment of the circumstances and facts of any implementation problem on Iran's side will be essential. And, in fact, the creation of time and space for such an assessment is an unsung benefit of the JCPOA. Rather than face a pre-JCPOA 2-3 month timetable for assessing Iranian intentions during a prospective breakout attempt, the JCPOA now will afford us much more time to make a reasoned and thoughtful assessment of what Iran is up to and how we should respond.

Sanctions

Taking a measured approach to determining Iranian compliance (or lack thereof) with the nuclear commitments of the JCPOA is also important because the United States and its partners made their own commitments in the deal. Iranian leaders are even now considering carefully whether to regard what they view the delayed benefit of the sanctions relief provisions of the JCPOA as merely a reality of the global economy and Iran's place in it, or a calculated effort on the part of their intractable enemies in the United States to deny them the very relief they purchased with nuclear concessions.

First and foremost, we should consider carefully Iran's overall economic health. The economy has improved since 2013. President Rouhani brought with him into government a cadre of technocrats who arrested Iran's economic freefall, aided in part by the halt in U.S. sanctions under the Joint Plan of Action (JPOA) but largely because having found themselves at the bottom of a hole, they stopped digging. These officials implemented a combination of reforms that, in the IMF's words last December, "set the stage for improved macroeconomic performance, provided comprehensive reforms are implemented."⁹ In essence, these steps created some stability in Iran's economy but they did not repair any of the major, structural problems identified by the IMF nor did they change the basic facts of Iran: that its state-based, oil-focused economy will always have a ceiling.

The sanctions relief contained in the JCPOA was never going to replace the need for Iran to make further reforms. I do not think that most of the experts in Iran's government believed that they would. Rather, I believe the hope was that JCPOA relief would provide enough of a spark for the economy to permit Iran's political leaders to take the politically sensitive step of economic reform, particularly given there are entrenched groups in the country with a clear interest in maintaining the status quo.

⁹ International Monetary Fund (IMF), Article IV Staff Report on Iran. December 2015. <https://www.imf.org/external/pubs/ft/scr/2015/cr15349.pdf>



It is difficult to say whether the economic relief created by JCPOA has provided room for such reforms. As of today, Iran has been able to regain some of the market share it lost when U.S. sanctions clamped down on oil exports in 2012-2013. Iran's automotive industry is showing signs of life, facilitated by the fact that sanctions on the auto sector were fairly nascent when the JPOA froze them in November 2013. And, Iran has been able to sign fairly large contracts for the import of aircraft from Airbus and Boeing. Internally, inflation has been reduced from around 45% to around 10%.¹⁰ Iran's currency has stabilized. And, there are indications that the Iranian banking system is finally recovering from the insolvency brought on by years of bad loans and damage from sanctions.

On the other hand, Iran's economy is nowhere near what it might have been had sanctions not been imposed, or at the levels promised by Iran's leaders. Unemployment is down, but it remains in the double-digits.¹¹ GDP growth has returned after years of contraction, but Iran is building on a far weaker, smaller base than prior to the Ahmadinejad years and sanctions.¹² This is particularly frustrating for Iran, given that the Ahmadinejad years were also marked with record oil prices and revenues, most of which now appears to have been squandered. And, Iran has yet to see the kind of major external investment pour in that, to some extent, its leaders were banking on after the JCPOA came into force. In my view, this leaves Iran with an economic position best described as "stable and improving slightly." (I outline the main successes and impediments that Iran has experienced thus far in a paper being published today by the Center on Global Energy Policy at Columbia University, which accompanies my testimony as an appendix.)

Iran's difficulties primarily stem from three factors:

1. Iran remains an incredibly difficult country in which to do business, with a complicated regulatory environment, onerous security issues, and lacking financial infrastructure;
2. Residual sanctions and the threat of snap-back of those sanctions suspended or terminated by the JCPOA has chilled enthusiasm for going back into Iran; and,
3. Low oil prices have contributed to an overall imbalanced perception of the risk vs. reward calculus for the outside world with respect to Iran.

The problems that these three factors create are interrelated. For example, I have heard directly from numerous third country banking and business officials that they are deeply concerned about the risk of U.S. secondary and snap-back sanctions. They understand clearly that, with the 2010 Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) fully in place, they remain at risk for doing business with the Iranian Revolutionary Guard Corps (IRGC) and approximately 200 other U.S. designated entities and individuals in Iran. In fact, as I testified during last summer's hearings on the deal, the JCPOA not only did not constitute "unilateral sanctions disarmament," but – in the eyes of

¹⁰ Slavin, Barbara. June 2016. "Senior American Official at IMF Says Iran faces 'fundamental' economic choices." *Al Monitor*. <http://www.al-monitor.com/pulse/originals/2016/06/senior-american-imf-iran-fundamental-economic-choices.html>

¹¹ International Monetary Fund (IMF), Article IV Staff Report on Iran. December 2015. <https://www.imf.org/external/pubs/ft/scr/2015/cr15349.pdf>

¹² Ibid.



many in the international business community – it did not even represent a real change in U.S. sanctions posture or approach.

At the same time, when I have asked these same executives whether they would go back into business with Iran if all U.S. sanctions were to be lifted, many voiced a different concern: that Iran itself remains a tough place to do business, with uncertain profits to those who dare enter. Many have recounted stories of contracts that were faithfully fulfilled by the foreign participant, but then changed by their Iranian counterparty (e.g., building facilities in Iran that were supposed to be “builder operated” for some length of time in order for the construction contractors to recoup their investment, only to have this part of their contracts voided in deference to local operators). Others have described the negotiating process in Iran as needlessly and endlessly complex, stymying agreement and ensuring that – once negotiated – deals are next to impossible to implement due to second guessing and renegotiations. Still others have expressed their concerns about actually operating in Iran, noting the arrests of dual nationals.

Yet, for all of these problems, had Iran re-entered a global oil market with high prices instead of one in which oversupply was keeping prices low, the country might have experienced an economic boom. The practical result of low oil prices has been to drive down interest in investing in Iran’s oil and gas fields, and to reduce still further the “reward” element of any risk/reward calculus of doing business in Iran. Iran’s leaders are conscious of this reality—it is one reason why Tehran pushed for production cut-backs from other OPEC member states so as to create room for their own return to the market. But this awareness does not address the more fundamental problem that Iran’s oil simply isn’t what it was worth when negotiations on a JCPOA commenced.

Absent a market-creating force like a major oil company or similar announcing a significant investment and setting up shop in Iran, there is little incentive for banks or smaller service companies to go back into the country. Instead, we have seen short-term trade deals, continuation of existing relationships (such as in the auto industry), and discussions of new Iran Petroleum Contracts that have yet to emerge in final form. Here too we have evidence of Iran’s domestic political and regulatory processes getting in the way – as the main hindrance appears to be debate internally over how to interpret the Iranian constitution’s prohibition on foreigners opening Iranian oil and gas resources – as well as fears over sanctions contagion from the presence of IRGC and related entities throughout Iranian industry.

Remedying this combination of problems is going to be difficult for Iran, notwithstanding what the United States chooses to do. However, unlike in other countries in which our stake is relatively minimal, the United States does have an interest in Iran being able to reap the benefits of its emergence from economic isolation. Put simply, though I believe the United States has executed its responsibilities under the JCPOA to the letter and need not – as a legal matter – do anything further, the United States does have an interest in ensuring that Iranian leaders believe and can credibly argue that they saw some economic benefit from the JCPOA. Our audiences are two-fold: Iran’s leaders and population; and, those countries that we may need to appeal to in the future should Iran breach its obligations and set us again down the path of confrontation.



We should look for ways to offer clarity on our remaining sanctions measures and how they operate. Though they are seen sometimes in Washington as merely words, frequently asked questions (FAQ) and licensing policy guidance have real value in the real world. They explain U.S. enforcement positions and they articulate the standards that we expect businesses and banks to uphold. They provide confidence to compliance officers that they understand what the U.S. government means. And, they avoid creating unnecessary ambiguities that undermine the integrity of our sanctions regime and perceptions of our competence. This material should be updated to clarify further the U.S. approach to sanctions now, using plain language where possible, particularly as relates to questions of how much due diligence is required for foreign entities to avoid sanctions for inadvertent business with illicit actors and how to handle any U.S. persons' involvement in foreign companies' dealings with Iran.

This guidance should be supplemented by the judicious use of executive licensing authority. The United States should constantly look for ways to streamline the processes necessary for companies to fulfill their obligations under U.S. law and reduce the workload on U.S. compliance officers. Licensing can do this where guidance fails. For example, General License I – little noticed, I am sure – offered real assistance to aviation service companies who were free, as a result, to enter into discussions with their potential Iranian counterparts without receiving specific licenses in advance. Discussions have little material value to Iran, but – for U.S. companies and those foreign companies who watch (and shadow) U.S. companies to ensure they are fulfilling U.S. law to the extent possible – providing a general license for these discussions ensured that companies seeking to use the relief in the deal had an easier time in doing so. This reduced the paperwork burden on Treasury while still offering Iran no real advantage over the specific licensing approach outlined in the JCPOA and subsequent U.S. policy.

There may be other areas in which new general licenses would be useful. For example, providing licenses for U.S. compliance and legal services to those companies who seek to do business in Iran (solely for the purpose of avoiding breaking U.S. law) expands the practical reach of U.S. law in a constructive and sober way. Iran will generate some value from this, as business may once again flow that otherwise could be denied by confusion. But, is the U.S. interest in stymying business in Iran really best served by making compliance with U.S. law and regulation as cumbersome and awkward as possible? Taking this approach reduces the overall attractiveness of business with Iran and could contribute to de-risking that will – in the long term – disadvantage the United States both economically and in terms of the use of sanctions to deal with future problems.

Working to address the ambiguities of U.S. sanctions and to smooth JCPOA implementation will not solve Iran's problems. But, they will make international business activity with Iran easier to pursue, demonstrate that the United States takes seriously its responsibilities and the common interpretation of them as being intended to facilitate Iranian economic progress, and reduce Iran's ability to claim – in the event of future cheating – that it is reciprocating for Iranian malfeasance.



At the same time, we also have an interest in demonstrating that we will continue to confront Iran for its support for terrorism, destabilizing activities in the region, and violations of Iranian human rights.

We should continue to apply those sanctions not terminated under the JCPOA. We have an interest in Iran not receiving the benefit of sanctions relief under those provisions until it has satisfied our other concerns. Iran must understand that it will not be treated as a “normal” country internationally – and especially in the United States – until it does. And, this will create interest in Iran to address these problems. So, designations associated with Iran’s ballistic missile and conventional arms proliferation, as well as human rights violations, are reasonable and should continue to be issued. And the provisions of CISADA should continue to be leveraged to reduce Iran’s ability to engage in “normal” commerce, consistent with U.S. law. In this way, and as demonstrated in Iran’s inability to reconnect with the global economy thus far, Iran can and will pay a price for its policy choices even if the overall legislative framework does not expand to touch on more of Iran’s economic sectors.

To this end, though I do not believe its renewal is essential for the stability or efficacy of U.S. sanctions against Iran, it is reasonable to renew the Iran Sanctions Act (ISA) and to consider new legislation that would impose penalties on those who support Iran’s development of and trade in missiles and conventional arms, as well as violations of Iranian human rights. These sanctions should be crafted in such a way as to avoid violating the JCPOA, which denies Iran a credible nuclear weapons option and thus deny Iran the ability to threaten the our partners in the region, particularly Israel, with existential force. Indeed, we must ensure that in our zeal to confront Iran’s other illicit conduct we do not inadvertently create grounds for Iran to walk away from the nuclear deal, not for the sake of the deal itself but rather for what it denies Iran. This is not acquiescing to nuclear blackmail from Iran. This is acknowledging that we have an interest in the nuclear deal and so do our partners.

All told, going forward, the situation demands a thoughtful, nuanced approach toward dealing with Iran, the JCPOA, and sanctions.

But, ultimately, only Iran can solve Iran’s problems, and this can only start by addressing one fundamental issue: stopping support for terrorism and destabilizing regional activities, as well as violating the human rights of its population. An Iran that was more tolerant at home and constructive abroad would find business easier to attract and keep. It might also find a United States prepared to reciprocate with changes to U.S. sanctions laws, which would also facilitate business. For its own sake, Iran also should pursue more straightforward, economic reform. Iran should adopt changes to its financial system to sustain banking operations that conform to international standards for anti–money laundering, tax compliance, financial disclosure, and capital adequacy. Iran should reform its bureaucratic process to make it easier for foreign companies and domestic entrepreneurs to operate in the country.

Taking such steps, however, may be a bridge too far for Iran’s leaders. Many of them, particularly in the security services, have a vested interest in the status quo. It affords them political power, in that they can control the economy and its spoils. And, it affords them



direct financial benefits personally as well as for their institutions. Some in the system have embraced the idea of change in order to advance the cause of the Iranian population and, doubtless, to further their own political fortunes. And, my assessment is that we are now seeing the continuation of this struggle in the former of scandals, allegations of bribery and tax avoidance and, crucially, corruption investigations. Charges have been lobbed from all sides in this fracas, despite the Supreme Leader's frequent appeals for civility and focus on the outside threats (particularly the United States).

Last July, I suggested that the security forces in Iran were facing an existential threat of their own: reform and openness for their captive population. I see little now to challenge this assessment. Security forces in Iran have sought to repress the economic changes that Rouhani and his technocrats have pursued, including through the most basic and unconscionable of maneuvers: the arrest of dual nationals, including Siamak Namazi and his father, on charges of espionage. They have also sought to discredit some in Rouhani's administration. These are the activities of strong men in positions of power. But, they are not the actions of confident, strong men in positions of power. Rather, they obscure a deep sense of trepidation and fear that the system they have built and furthered may be unraveling. It is here that the United States has a unique, if difficult to harness, opportunity in Iran: to avoid contributing to the power base of Iran's security services by playing once more the villain. This will require care and nuance in our response to Iranian provocations, but it is not beyond us.

Thank you for this opportunity.