

Senate Foreign Relations Committee Holds Hearing on the Iran Nuclear Negotiations, Panel 2

[LIST OF PANEL MEMBERS AND WITNESSES](#)

MENENDEZ:

Let me call up, as our panelists leave, our next panel.

David Albright is the founder and president of the Institute for Science and International Security, and Mark Dubowitz, who is the executive director of the Foundation for the Defense of Democracies.

As we have our witnesses depart and our new witnesses join us, let me say that both of your statements will fully be included in the record. And we'd ask you to summarize them in five minutes or so so that we could enter into a discussion with you.

I'd ask those who are leaving to please do so quietly so that the hearing can continue. It's the intention do the chair to listen to this testimony which I think is incredibly important to inform the committee's judgments as we move forward, and then to briefly recess to do our business meeting which is held at 12 o'clock, and then come back for those who want to ask questions. So with that, Mr. Albright, please, you'll start off.

ALBRIGHT:

Mr. Chairman, thank you. Ranking Member Corker and other members of the committee, thank you again for inviting me.

I think it's been made clear that the joint plan of action has some significant benefits in the short run, but its success remains uncertain pending the negotiation of long-term arrangements. And finally, the test of this joint plan of action will be in negotiating these long-term arrangements, a process President Obama gives a 50/50 chance of success.

And I think it's been made clear, although I'd like to state it again, that a final agreement must create long-term meaningful limits on Iran's nuclear program, combined with adequate verification sufficient to ensure that any attempt by Iran to build nuclear weapons would be detected in a timely manner and provide adequate time for an international response.

In -- I'd like to first briefly say some of the things -- or say two things about the interim agreement. One is I don't think it's -- I'd like to at least say that it does accomplish certain things. I mean, one of the benefits of it is that it avoids a situation that was becoming very dangerous. Namely, Iran moving toward a very, very short breakout time.

And so -- and it also adds to the clock, as others have mentioned, but I think it's the combination of those two things that is -- is -- needs to be pointed out. But it -- as others have stated, the agreement does have gaps. And I think -- one has been mentioned on the centrifuge R&D. And thank you for mentioning that earlier, Chairman.

Another one I'd like to mention is that Iran can continue its illicit procurement activities. It's -- it's very dependent on outside supply for its centrifuge program, for the Iraq reactor. And those efforts can continue, and it's just essentially a gap in the deal that cannot be avoided.

And there's other problems with it. So it really is just a short-term deal, that it should not be looked upon as something that should be extended. If it is extended beyond six months, Iran should

demonstrate that it's made significant concessions by that point, that it's not just in a sense letting the clock run and that they reach six months and then it's just automatically extended.

I think I'll skip over the discussion on the weaponizing. I think this committee understands probably better than most the absolute need for Iran to address the IAEA's concerns about past and possibly ongoing nuclear weapons programs.

And I think that it's very important that the administration continue to stick to a clear policy that there will be no comprehensive solution if those concerns are not addressed in a -- in a very significant way.

On the comprehensive solution itself, there's two -- two issues involved. One is adequate -- or quick detection or detection before Iran builds a nuclear weapon, but I think post the debate on Syria there has to be enough time for an international response, whatever that's going to be.

And I would add to that four or five years from now one can't expect any administration to in a sense have their finger on the trigger, that whatever is put in place in the comprehensive solution has to provide adequate warning so military options by the United States are not necessary, that there has to be enough time so there truly can be an international response that would stop Iran.

And if the international response includes military actions, that that's thought through as it was in the lead-up to the Iraq War in 1991. The United States was not having to act unilaterally. Now in such a comprehensive solution, I think it's -- we've talked a lot about the breakout times.

I mean, at ISIS we recently put out a model comprehensive solution which is available on our website where we think the breakout times have to be at least six to 12 months. But there's many other parts of this that need to -- to be done.

One is that its stockpile -- Iran's stockpile of well-enriched uranium, whatever form it's in, is much too large for a comprehensive solution, that having it up to what would be 300 kilograms equivalent of near 20 percent low enriched uranium hexafluoride. Even if all that hexafluoride material's been turned into oxide, it can be reconverted.

It's very important to block Iran's plutonium route to nuclear weapons. I think there's much greater agreement on that, that the Iraq reactor needs to shut down. We would say be upgraded to a modern light water reactor. But Iran hasn't accepted that at all.

We also believe that there's a lot of work needed to -- to develop constraints or provisions to limit or reduce Iran's ability to build secret facilities to enrich uranium or separate plutonium. Also that Iran needs to commit to stopping its illicit procurement of goods for its nuclear weapons, that that's often shuttled aside as it was in the interim agreement. But I think it's critical in a comprehensive solution that Iran commit to do that and that -- and that that be verified.

And again, I think we believe that the duration of these constraints needs to be 20 years. Others have suggested even longer. And -- and also we would argue that the additional protocol by itself is not sufficient. The term we use that there has to be additional protocol plus, which adds in several actions.

And some of these actions were used by the IAEA in 2003 and 2004 during the period of the suspension to really get to the bottom of some of the -- of the duplicity of Iran. And also I'd like to point out that this -- that even the comprehensive solution, there's some work that needs to be done when the constraints end.

I mean, let's say it's 20 years. After 20 years is -- all the constraints are just removed and Iran is free, as Senator Markey mentioned, to pursue an enrichment program that would outfit 20 large commercial power reactors. Are we going to feel comfortable even

then? So I think that that's a hole in it. And I would point out that if such a program, at least in some crude calculations that we've done at ISIS, would involve 2 million IR-1 centrifuges.

ALBRIGHT:

So I think there is a need to, as a last comment -- and I apologize for being over -- for -- for the United States to be very clear about that it wants a very limited program and that it -- and that while it's talking about 20 years, the constraints would only come off if a set of criteria were met that guarantee Iran will not build nuclear weapons after that time. Thank you very much.

MENENDEZ:

Thank you. I look forward to -- your testimony, which I've fully read, is very important. And I look forward to the Q&A to flush out the nature of what such a long-term agreement would be.

Mr. Dubowitz?

DUBOWITZ:

Great. Thank you Chairman Menendez, Ranking Member Corker, members of the Committee. Thank you for inviting me to testify. It's an honor also to be testifying alongside David Albright.

We've heard the argument. Administration officials have said very clearly Iran is not open for business. Meanwhile, the Iranian president, the head of the nuclear program, Salehi, are sending the opposite message, including at Davos, most recently.

Now the administration is confident that this sanctions architecture that you've put in place is not going to erode. And President Obama claims, quote, "it's not going to be hard for us to turn the dials back or strengthen sanctions even further."

Who is right?

Well, regrettably I think the administration may be miscalculating. We are already seeing the early stages of an interim shift in market sentiment. This is something that has been unintentionally, but I think predictably triggered.

The JPOA package, estimated by the administration at \$7 billion, may not sound like a lot, but prior to the agreement, it's important to understand Iran had fully accessible overseas cash reserves of only \$20 billion. That \$7 billion infusion therefore represents a 35 percent increase in Iran's reserves.

Moreover, the \$7 billion number does not account for the psychological impact on market sentiment. Sanctions are predicated upon a strategy of escalation, where an ever-expanding web of restrictions spook foreign businesses. Fear triumphed over greed, as companies viewed Iran as literally an economic minefield.

But the tide is slowly starting to turn. While the administration blocks new sanctions in waiting (ph) legislation, it provides sanctions relief in key sectors of the Iranian economy, like energy, automotive, petrochemical, precious metals, and aviation. And this unwittingly sends a message that Iran's economy is opening up.

These changes have sparked the beginnings of a modest, tentative, albeit fragile recovery, as demonstrated by key economic indicators. And facts are stubborn things. So let's review this.

Iran's GDP dropped by over 4.5 percent in 2012, 2013, when the toughest sanctions hit. The IMF and World Bank now estimate the GDP will increase by about 5 percent from 2014 to 2016.

Iran's currency, a weathervane for the health of the Iranian economy, dropped by almost 75 percent between 2010 and 2012. But actually it's increased by 46 percent since Rouhani's election, and it's increase by 18 percent since the announcement to the JPOA.

There's been a dramatic drop to inflation from an official rate of 40 percent and an unofficial rate of over 60 percent in 2012, to a much more manageable rate of 20 percent and falling.

The Tehran Stock Exchange, which reflects investor confidence, has almost doubled since Rouhani's election. And we've talked about all the trade delegations that have gone from Europe. In fact, the "New York Times" said there's been more in the first two weeks of 2014 than all of 2013.

Turkey's prime minister was just in Iran and he recently pledged to increase bilateral trade with Iran to \$30 billion by 2015. And foreign companies already are flocking back to the Iranian auto sector. That's the object of some relief.

That sector, in 2011 before sanctions hammered the industry, contributed 700,000 jobs and almost \$50 billion to Iran's economy. It's the second largest sector in Iran, after energy.

Petrochemical sanctions relief opens up even greater opportunity for a sector that before the JPOA accounted for the largest source of Iran's non-oil exports. And Chairman Menendez, you mentioned this earlier, the suspension of oil export adoptions (ph) is taking pressure off Iran's oil sector, which was in danger of irreparable losses from the forced closure of oil fields.

Iran, in fact, is going to save over \$14 billion in oil, fuel oil, and condensate revenues that it otherwise would have lost over the next 6 months.

Now already the White House and the administration is being challenged by our partners. We've talked about the Russia-Iran deal. Senator Shaheen, you're right. It's a \$18 billion oil for goods deal. And that arrangement, which the White House acknowledges as sanctionable, tests Washington's will to enforce sanctions. And it may be worth even more than \$18 billion if it's exploited as an illicit finance scheme.

And we have precedent for this. The Turkey-Iran gas for gold scheme, which occurred between 2012 and 2013, without adequate administration enforcement, allowed Iran to reportedly gain access to over \$100 billion.

I'm also hearing from sources that Iran may be using gold to actually finance the war in Syria. This may be, again, an unintended consequence of relaxing precious metals sanctions.

Now if Washington can't stop this Russia-Iran deal, after failing to crack down on the massive Turkish scheme, what signal does it send to others? The administration is further cementing the impression of an Iranian economy open for business by blocking S.1881, which if passed, would have lent credibility to the administration's message and to have helped reverse market psychology.

However, my concern that even these tough sanctions in waiting that would've worked today may be insufficient in 6 to 12 months if Iran is on pace for a sustained economic recovery, if it's made progress on nuclear weapon and ballistic missile development, and if Iran's leaders are unwilling to conclude an acceptable deal.

Then President Obama may discover he can't turn sanctions on and off like a dial. Then the administration and Congress will need to impose a comprehensive financial and trade embargo within weeks or risk losing all economic leverage to stop Iran's nuclear weapons breakout capability.

Congress needs to prevent Iran from engaging in endless negotiations and legislate clear parameters and a strict timeline for such a nuclear deal. That work needs to begin immediately with the administration.

Thank you very much for inviting me to testify.

MENENDEZ:

Thank you, Mr. Dubowitz.

I look forward to exploring with you both the value and the consequences of the sanction relief that I read in your testimony.

The Committee will stand briefly in recess to conduct a business meeting in S.116, and then we will return immediately afterwards.

And I thank this panel for their patience. It's an incredibly important topic. A lot of interest to the Committee. And your testimony's incredibly important as part of the -- of the record.

MENENDEZ:

So the committee stands in recess subject to the call of the chair.

(RECESS)

MENENDEZ:

(OFF-MIKE) for your forbearance, and we appreciate your willingness to hang in there with us. Let me start with you, Mr. Albright. You have a lot in your testimony that -- I hope people will read the testimony. Some of it is technical in nature, and I plowed through it. You know, I'm not an expert, but I plowed through it.

No, no, not at all, on the contrary I think it's incredibly important to understand because what a deal ends up being that we can support depends upon what it is. So let me ask you some questions to further elucidate the record and your testimony.

Is there a way to significantly set the clock backwards, as using a metaphor, on Iran's nuclear weapons capability, without closing for-dough (ph) or without significantly dismantling Iran's centrifuges?

ALBRIGHT:

I don't believe so. I think it -- at the heart of this is the need to significantly reduce their centrifuge program, and -- and I think with the Arak reactor being part of a plutonium route, you're really confronted with the need to -- to shut that down.

Again, it can be converted to something else, but it -- the way it's designed, according to earlier Iranian declarations -- I mean, we don't know the final, detailed design. They haven't provided that to the International Atomic Energy Agency yet, but it is best configured to make weapon-grade plutonium, and -- and you don't want Iran to have such a -- such a reactor.

MENDENDEZ:

And Iran could only have one enrichment site, the one at Natanz (ph)?

ALBRIGHT:

Yeah, and I think that from -- from our analysis, it's -- it eases the verification and it removes the site that's not invincible, but gives Iran a sense that they can withstand a military strike and not have its -- some number of centrifuges down that hole destroyed.

MENDENDEZ:

I'd question why you would bury deep in the mountain an enrichment site if your purpose is for civilian nuclear energy.

ALBRIGHT:

That's right. No, and there's a lot of suspicion that it was originally designed to be a -- a site to make weapon-grade uranium.

MENDENDEZ:

Now, I spent some time with Secretary Sherman going over the elements of your testimony, and maybe you could help, for those

who don't have all the nuances, help make, in layman's terms, the -- what you describe as the -- the -- the loophole for, I think as your testimony describes, the -- the -- Iran's ability to continue the development of these IR-2 (ph) centrifuges. What exactly does that mean, and why is that consequential?

ALBRIGHT:

Well, one is is that it's the IR-2 M (ph) is a -- a centrifuge that's much more capable than the -- the ones they've deployed, the IR-1 (ph). Anywhere from three to five times more effective and -- also it's more reliable. It's based on a German- designed centrifuge that went via Pakistan to Iran, and then Iran modified it. But it's, at it's heart, it's a more reliable one than the IR-1 (ph). And so, during the interim deal, they were still able to run a production-scale cascade at -- at the pilot plant at Natanz (ph), and they can just learn to operate it better. Work on its -- the -- its reliability, to further improve that, to gain confidence in running it in this cascade.

They -- they will still need to deploy it in enlarged numbers, and they've started to do that at the underground site. There's 1,000 deployed in six cascades, and they would still need to do that, so they can't finish but they can make significant progress on -- on continuing to develop this machine.

MENDENDEZ:

And -- and one of the things you've said in your testimony, "It can further develop this particularly advanced centrifuge while hiding any results of its progress from the IAEA."

ALBRIGHT:

Yeah and it's -- a year or two ago, Iran told the IAEA it was going to start enriching in that machine and depositing the enriched product into the product tanks and the IAEA wouldn't -- and everyone else would know how well the machine works. They -- they decided, they

then subsequently announced they weren't going to do that. And so the IAEA's left, in a sense, somewhat blind about the capabilities of this machine. I mean, is it -- is it truly that great or is it having problems? And -- and so the IAEA just doesn't know. I mean, I think the worry is that they're hiding the capability from the IAEA so we just -- no one knows. And that it is actually making progress.

MENDENDEZ:

Now one of the -- the importance of the element of the centrifuge is that, you say in your testimony, "at the end of the interim period, Iran is likely to be far better positioned to deploy reliable IR-2 M (ph) centrifuges, which is this more advanced centrifuges, on a mass scale at its enrichment plants, and this gain, if there was to be no agreement, would allow Iran to make up for time lost more quickly."

You go on to say, "a centrifuge five to 10 times more capable than the IR-1 (ph) centrifuge," I assume those are the ones that they are using now, "would require five to 10 times fewer centrifuges to make the same amount of weapon-grade uranium for nuclear weapons, allowing for much smaller facilities, fewer personnel, and procurement of less material. Centrifuge research and development could also lead to breakthroughs in materials or methods that would further strengthen a secret breakout effort, and make both the implementation and verification of a comprehensive solution extremely difficult.

ALBRIGHT:

Yes. And when I say five to 10 times, that's beyond the IR-2 M (ph), but they are working on such machines, at least, they've stated that in the past to the international inspectors. And so they -- they want to have a machine that is up to 10 times -- 10 times the output of the current generation one. And those machines pose particular difficulties for verification if -- if you do as you've stated, you need far fewer of them and you can get by with a much smaller facility and -- and particularly if you're developing the skill to make them

and operate them, then you do have to worry about them, and -- and it'd be better that they not be developed. And I think that's our recommendation.

MENDENDEZ:

And your final conclusion of that is that "development of more advanced centrifuges would greatly ease its ability," meaning Iran, "to conduct a secret breakout to nuclear weapons."

ALBRIGHT:

That's right. If you only need, let's say, 1,000 of them to have the capability to enrich up to weapon-grade uranium, then you can use a much smaller facility. I mean Fordau (ph), the underground one, is sized for about 3,000 centrifuges, so if you can reduce the number - - and -- and another thing that happens as you learn to operate these more sophisticated machines, you're actually advancing your skills quite considerably, both in manufacturing and in -- in operation. And so the, one of the problems the Iranians have faced with the IR-1s (ph) is just getting them to operate at a minimal level, and they've faced many breakages, and -- and had troubles getting the enrichment -- enriched uranium output, up.

MENDENDEZ:

Now, two final questions to you. "During the interim period," you state, "particularly with weakening sanctions, Iran can focus on building up its supply of essential goods and alleviating bottlenecks in certain key goods, allowing for a much more rapid expansion of its programs at the end of the interim period. These problems will grow the longer the interim period lasts." And then you go on to say, "Delay works more in the favor of Iran than it does of the United States and its allies." Can you explain why that is the case?

ALBRIGHT:

Well, if -- I say, they -- they do need to go out and buy things. Examples would be carbon fiber, they need to buy pumps for the Arak reactor, they need to buy pumps for the Arak reactor. They need to buy maraging steel, and there's all kinds of vacuum related equipment that they need to buy. And -- and they now have an opportunity to continue that bind. And again sanctions and laws are designed to try to stop them, but they've proven to be less effective than -- than we at ISIS thought they would be. I mean Iran -- Iranians are good at smuggling. And they -- and while their -- many of their efforts are stopped, there's interdictions of their -- of their goods. Things are getting through.

And -- and now they have this additional period to continue this. And -- and it's one of the -- and what they can do is, develop a stockpile of materials that then would allow them to buy many more machines. I mean that's the bottom line. It's if they can stockpile, they can then, if the deal breaks down, build a lot more. And it's also why we think, in recommending in the -- in the comprehensive solution, that Iran commit not do this anymore. That -- that their -- they have to give up this -- this -- these smuggling operations that they've mounted so effectively.

(UNKNOWN)

Mr. Dubowitz, I have questions for you, but I'm going to turn to Senator Corker, because I know he has time constraints, and then I'll come back.

CORKER:

I want to thank you both. And I agree with the chairman, I think your testimony today is, both in written form and orally is -- is outstanding. I wish everybody on the committee could hear it and candidly help the administration in someone paying attention. But Mr. Albright, I'll start with you since you testified first. What -- what do you -- what is our current capability to detect if Iran is enriching in a warehouse someplace that we're unaware of?

ALBRIGHT:

Well, the U.S. intelligence, despite some recent reports in the media, is pretty good on Iran. I mean it -- it's found the Fordow site, with -- with its allies. I mean it's a combined effort. It identified sites in the early 2000 and so it's -- and it -- and it's been going to work with the international inspectors, so you can have people on the ground using intelligence information. And so it's pretty good, but it's not perfect. And there is worry that -- that if Iran built a secret centrifuge site, it could go undetected. And -- and the current arrangement with the inspectors right now, while better, isn't enough in order for the IAEA to say they can tell you that they can find a secret site. So there remains a risk. And that's another reason why you want the interim deal to be short-lived, and to try to get a comprehensive solution where the verification arrangements are put in place that combined with western intelligence, can provide much greater assurance that there is no secret -- secret nuclear site.

CORKER:

And based on the way these negotiations have begun, looking at the public comments that the P-Five-Plus-One and Iran are making, and just looking through what's occurred, what do you think is today the likely outcome on July 20?

ALBRIGHT:

Well I think it -- after we released our report a couple of weeks ago, I must say that I can't be very optimistic. Iranian statements are pretty clear. I think you quoted some of them. They -- they're -- they appear unwilling to accept the deep cuts in their -- in their centrifuge program that I think are necessary. I mean, maybe they will give up or allow the Arak reactor to be converted into another type. Maybe they'll even shut down Fordow. But I think getting them to reduce the number of centrifuges, is going to be very tough. I think the military dimension side of this is going to be tough. Iran is resisting greatly allowing the inspectors to go to Parchin.

And they -- and in a sense, Iran has dug itself a very deep hole. And -- and so I think that's going to be a tough issue to surmount. And I think in that case, I did appreciate in the legislation that you produced, that there was a condition put in that Iran is going to have to satisfy the IAEA's concern on -- on past, and possibly ongoing military issues. I think the administration has said in private settings, that it -- that there will be no comprehensive solution unless they satisfy -- Iran satisfies the IAEA. But one would like to see that as a firm, written statement from the administration.

CORKER:

And do you agree with that, Mr. Dubowitz, that as we move along and the economy improves and the indicators that we now see there, makes it even more difficult for us to have leverage to -- to cause them to -- to cause us as a country and many others, to overcome where they are? Do you agree with that?

(CROSSTALK)

CORKER:

Mr. Albright? Do you agree with the comment your colleague has made relative to...

(OFF MIKE)

CORKER:

Yeah, that's right.

ALBRIGHT (?):

Yeah, I -- I certainly worry that -- another reason in my mind why you want an interim period is short as possible, with clear -- clear consequences on Iran if that period elapses. So, I think the -- now, we'll have to see. I mean again we're not -- at ISIS, we are not

economic specialists by any means. We're not sanctions experts. So, I'm just offering that.

CORKER:

Mr. Dubowitz, you've talked and you've both orally today written testimony. I know we had a long meeting with you yesterday. What do you think the effect of passing the legislation Menedez and Kirk have offered, and many have signed on to -- what would the effect of that be relative to their economy today?

DUBOWITZ:

Well, Senator Corker, I think that the legislation had as its intent, to send a credible threat to international markets that it is premature to go back into Iran, and that if Iran does not satisfy the interim conditions, if it cheats on the JPOA, if it fires off long-range ballistic missiles, if it launches terrorist attacks against America, that all the sanctions relief would be gone and new sanctions would be imposed on Iran. And I think most importantly, I think it sent a very clear message that this will not be an endless process of negotiations. That there is a 12-month clock on this. And at the end of those 12 months, Iran has got to come to a comprehensive nuclear deal that satisfies very clear parameters and principles that were laid out in the legislation.

Not deal terms. It doesn't specify how many centrifuges Iran should be left with. But it has very clear end state parameters. And I think that's an important message to send to the international business community, and to the investors and consumers in Iran, that at the end of the 12-month period, if there's no comprehensive conclusive deal, then the sanctions will be imposed. I think that it -- had the legislation been passed, that it would have given a lot of credibility to that threat. My fear is, as expressed in my testimony, is without that credible threat, we are going to start to see the macro economic data shifting in Iran's favor. And I think it already has. It's -- it's modest. It's -- it's fragile, but it's also real.

And by the end of 12 months, if that economic recovery has become much more substantial, then I think there is far less pressure on Iran to negotiate. And then my ultimate fear is raised, which is, I think both the administration and Iran want to actually keep perpetually rolling over this deal for additional six to 12 month periods. I think it satisfies potentially, objectives on both sides. And I think there's a great risk in doing that. Because I think the Iranians will then gain even more economic leverage as their recovery increases.

CORKER:

Mr. Chairman, my staff is about to have a heart attack because I need to be someplace else. But if I could ask a question that he could answer for the record, I'd appreciate it. You know, we've seen what happened in Turkey with the gold for oil situation. We now see it looks like almost a copycat type of effort taking place, or being proposed by Russia right now. Is it your sense at the Treasury Department that this was an oversight? Or do you think this was an accommodation relative to the negotiations that were taking place?

DUBOWITZ:

Well, Senator Corker, I have the absolute greatest respect for Undersecretary Cohen and his sanctions team at Treasury. I think they have done, you know, Herculean work in helping to enforce the sanctions that Congress has put in place. I think that there are potentially other considerations. Considerations that the State Department and White House had, in not cracking down on what was clearly an illicit financial money laundering scheme. It has reportedly yielded Iran over \$100 billion. And you know, it's a long and complicated saga, but what happened and how the administration responded, and provided golden loopholes that were ultimately not closed until Congress finally closed it.

And then the administration insisted that there be an additional six months before those precious metals sanctions came into effect. I think it had a lot to do with the secret negotiations that were taking

place with Iran. It had a lot to do with having gold sanctions relief on the table at al-Mahdi in February and April. But the conclusion of the long saga is that Iran was able to exploit a significant golden loophole. Was able to get about \$13 billion in gold and over \$100 billion in -- in illicit financial transfers, and ultimately blow a major hole in the international financial sanctions regime. I think we didn't crack down on Turkey. And perhaps that's because of President Obama's partnership with Prime Minister Erdogan. My fear is that on the Iran-Russia deal, we're going to face the same situation.

And despite Undersecretary Sherman's assurances that -- that everybody has read the riot act to Vladimir Putin, I -- I am a little concerned that Putin isn't necessarily deterred by administration riot acts.

CORKER:

Not to be too pejorative but I think it's pretty understood that the administration has tied its future in so many areas, to its relationship with Russia that it really is difficult to -- to sense, or even feel that they would crack down on this in the appropriate way. But I hope they will and I appreciate your testimony. Mr. Chairman, thank you for this great hearing today.

MENENDEZ:

Thank you Mr. Corker for your -- Senator Corker, for your work and your participation, and helping us prepare it. Let me just finish off with you, Mr. Albright, to help us define for the record what a -- a verifiable, long-term deal -- the elements of that. What it would be to ensure that Iran doesn't have nuclear weapon capabilities?

ALBRIGHT:

I think it -- it's a fairly long list of provisions, so let me summarize. The -- talked about the Iraq reactor needs to shut down. There -- there also -- I think even before that, there -- you have to have

commitments from Iran not to process or separate plutonium, and not to build facilities capable of doing that. So it -- it's -- even if the reactor -- Arak reactor shut down, that's not enough by itself. You also don't want Iran ever again enriching above five-percent. That it would just be -- it would be limited to the types of fuel used in -- in civil nuclear reactors, or power reactors. I have mentioned the one about procurement of goods illicitly. The centrifuge -- and also the one site -- enrichment site. I mean centrifuge R&D is going to be important in the -- again, these would be conditions imposed for a certain duration. We're recommending 20 years. But you would want to limit centrifuge R&D to essentially models no greater than the IR2M.

I think you wouldn't want to stop that one, necessarily. You need to limit centrifuge component manufacturing. And so if you reduce the size of the centrifuge program significantly, you're going to have a lot of spares. I mean, some would be set aside and stored and then could be used later as spares. So Iran wouldn't need to make any more of these IR1 centrifuges ever again.

And even on the IR2M if they then subsequently deployed those, under this cap on the size of enrichment, they would even have some spares there. And so you would limit that part of the program.

One of the issues is the size of the low enriched uranium stockpiles. That -- one of the things the interim deal does is it moves, let's say, near 20 percent LEU hexachloride into the -- into another chemical form and puts it in a different category, the oxide form. And under the interim deal, that's seen as OK.

But the problem is in the long-term deal, you can take that material and reconvert it into chlorine. And so you don't want Iran holding very significant stocks of that type of LEU. And so you would also want to cap that and Iran would give up, blend down, send out of country or whatever a significant part of it's near-20 percent LEU oxide stockpile.

You also want to get, in terms of (inaudible), you want to have more controls over the uranium mining and milling operations. Where, again, this is more verification, but -- but the -- Iran would be much more open about how much is made every year and where it goes. And then in addition to verification, you would impose a cap. You don't want Iran mining more uranium than it could possibly use. And so the limits on the uranium mining would be consistent with the centrifuge program that's allowed.

You need conditions from Iran not to -- not to proliferate. I mean, there's worries about Iran working with North Korea to bypass some of these caps. And so you would want to have some commitments by Iran not to do that.

And then -- and let me just end on the verification. The additional protocols is a marvelous improvement in verification for the International Atomic Energy Agency. It doesn't change their rights, but it gives them many more tools and gets up front agreements from the nations to allow things. But it's been learned in the case of Iran that it's just not enough. With a country that has successfully deceived the IAEA for many years; has refused to cooperate; that many more conditions or several more conditions are going to be needed to be imposed.

And some of those would be that the IAEA would have greater access to the centrifuge manufacturing complex that remained; that the -- right now under the interim deal, it can see the -- where rotors are made -- rotor tubes are made and where centrifuges are assembled. You'd want that.

But even in that case, you'd want to know how many rotor tubes have been made. How many raw materials have been procured for those...

MENENDEZ:

So it's a pretty extensive and invasive list.

ALBRIGHT:

Yeah, it has to be. I think that's -- that's the lesson of the (inaudible).

MENENDEZ:

And what -- what -- what drives me to concern is the gulf between the list that you and the institute have devised and others have also said -- Dennis Ross in his article, for example. And the gulf between that and everything that we hear in Iran in which President Rouhani says, "No, we're not going to destroy it."

Now, maybe that's a maximalist position, as Secretary Sherman said, but there is a huge difference between where these two parties are at. And certainly from the West's perspective, P-5-plus-1, it will be absolutely necessary to have a deal that's verifiable and that can be embraced.

ALBRIGHT:

Oh, that's right. And the -- and also, I think we have to plan for the deal not working or the negotiations to fail. I mean, President Obama gave it 50-50 chance. The Iranians gave it less of a chance. I mean, administration officials below the president have given it a pretty low chance of success.

So I think if that is the true picture, then I think we do have to start putting in place some real plans for failure and what will happen then. And -- and it may turn out that it will be incentivize or give the Iranians an incentive to compromise more.

MENENDEZ:

Well, that brings me to you, finally, Mr. Dubowitz. And I appreciated your work and your insights over time.

You know, first of all, let's talk about the real value of the sanctions relief that has been -- that is being pursued under the joint plan of

action. You've suggested both in your oral and further in your extensive written testimony that it's beyond \$7 billion.

Talk a little bit about the -- the \$7 billion in the context of what was Iran's actual available cash reserve versus its ultimate cash reserve.

DUBOWITZ:

Well, thank you, Chairman Menendez.

Well, I think first of all, \$7 billion is not insignificant. I mentioned that -- that according to our sources, Iran only had \$20 billion in fully accessible foreign exchange reserves. And much of the money was available -- was actually locked up or was in escrow accounts. But they had \$20 billion that they could fully access. So you're infusing \$7 billion into \$20 billion, you're increasing their fully accessible reserves by 35 percent.

The second issue, and it's really been puzzling for me. I haven't understood why the administration came out and refused to acknowledge that there would be some shift in market psychology; that investor and consumer sentiment may increase; that there may be some illicit deals done with Russia or Turkey or other countries; and that the sanctions relief may be more than \$7 billion based on a shift in economic activity market sentiment.

I think that the administration could easily have acknowledged that; could easily have said to Congress, "Look, it's possible this is more than \$7 billion; it may be actually significantly more than \$7 billion. We will do our best to ensure that it's as little as possible." But what it leads me to believe, and this is where I get worried, is that the administration actually understands the sanctions relief is significantly more than \$7 billion, but that their theory of the case is that they're trying to get President Rouhani hooked on cash.

And what I mean by that is that they're trying to create an economic incentive for Rouhani to compromise. And that they believe that the

Iranian people will demand it; that will strengthen Rouhani's hand; and that therefore he will have more leverage with the supreme leader to negotiate a deal within six to 12 months.

And that when we start to see the macroeconomic indicators begin to turn in Iran's favor, and they already are turning in Iran's favor, that the administration will come back to you in three to six months and say, "Chairman Menendez, we actually think it's a good thing; we understand that the inflation rate is down; that the real dollar exchange rate is to Iran's advantage; that the GDP is starting to increase; that the auto sector is starting to recover. All of that we didn't anticipate, but now we acknowledge, and actually that's a good thing because it's now incentivizing Iran to do a deal."

MENENDEZ:

Yeah, we heard a little bit of that also in I think Secretary Sherman's response to I think it was Senator Murphy that she called it in a perverse sense, that these trade missions actually incentivize the regime...

DUBOWITZ:

Right.

MENENDEZ:

... to think about what could be.

I -- I look at two sectors that you talked about extensively in your testimony -- the automotive sector and the petrochemical sector. It's interesting that relief to the petrochemical sector actually helps the ayatollah receive money directly through his control of SAKAT (ph), which is a conglomerate totally controlled by the Ayatollah and for which they have several investments in petrochemical sites. Is that a fair statement?

DUBOWITZ:

Yeah, I mean, perhaps they're trying to get the supreme leader hooked on cash as well because maybe if his holdings in the petrochemical companies that are traded on the Tehran Stock Exchange increase in value, then he will start to see economic benefit. I mean, what I find puzzling about the sanctions relief that's been provided is that what we've done is we've provided relief in key sectors of the Iranian economy.

You know, I and others had recommended that if we were going to provide any relief, it should have been strictly through the return of some frozen oil revenues, not to Iran, but to be put into other accounts where the Iranians could spend that money in Europe, for example. But instead, what the administration has done is that they've lifted sanctions on some of the most lucrative sectors of Iran's economy, including sectors, as you've acknowledged, controlled by the ayatollah, controlled by the revolutionary guards.

MENENDEZ:

And in doing so, obviously, to the extent that they're opening those sectors, it's legitimate for the private sector to say, "Well, at least for this period of time, we can be engaged in these sectors because they're now no longer subject to sanction."

And isn't -- isn't it fair to say that when the administration has tried to quantify the value, that presumes six months of relief for value based upon what those sectors provided prior to the sanctions, not an enlargement. If I were Iran, I would put the pedal to the metal and try to maximize the petrochemical and auto sector during this period of time so that I could actually get better benefits and increase the parts available to me, so that in fact I can move the ball forward should an agreement not be achieved.

Is that a fair...

DUBOWITZ:

Well, that's exactly right. And I think, you know, again what I find puzzling is that, let's take the auto sector. The administration values the auto sector relief at \$500 million on the assumption that Iran will now be able to sell \$500 million more cars, export \$500 million more in cars.

Well, if you look at the Iranian auto sector in 2011, it represented about 10 percent of Iran's total GDP and it contributed \$50 billion to Iran's economy. Because the secret about Iran's auto sector is not -- it's not -- it doesn't have huge export potential. It has huge domestic potential. It's a country of 75 million people who want to replace their cars. And Peugeot and Renault and major international auto companies, who by the way were in Tehran two days after the Geneva agreement was signed, recognize that enormous potential for the auto sector.

And so what I believe Rouhani has done is he has bought himself not only something that has tremendous economic potency, but political potency as well, where he can represent himself as the man who saved the Iranian auto sector. And if you look at the potential for domestic auto production, for wages paid, for GDP actually generated, you have over the next six to 12 months more significant potential in the auto sector than I believe the administration is acknowledging.

The other, I think, concern that I have is you heard Undersecretary Cohen say that they have essentially said to international businesses, "You've got to have your deal done in six months -- goods delivered, payment made within six months." And yet you have Catherine Ashton acknowledging that this is actually going to be a 12-month deal. And the JPOA actually acknowledges that this can be renewed for an additional six months. So if you're an international CEO and you want to go back into Iran's auto sector, you're not thinking of this as a six-month deal, you're thinking of this as a 12-month deal.

You also are thinking you've got to get ahead of your competitors, so you need to get back in there. And so, you're starting to make those investment business decisions, not only even based on a six-month window or 12-month window, but you're probably assuming that the administration is going to renew this interim agreement for further periods of six or 12 months. And so, you've got the auto sanctions relief. And now, your opportunity to exploit a market that the Boston consulting group said is the world's third-most promising auto sector, after Indonesia and Mexico.

So, this is -- this is significant sanctions relief, again, for nuclear concession, that is, as David Albright has said, may be important, but are also reversible, and may not get to the heart of Iran's military nuclear program.

MENENDEZ:

And finally, on oil relief, it seems to me -- and one of the reasons I didn't want to continue -- 'cause I wanted to get to both of you -- is that my understanding of oil relief is that actually, there can be a permission to purchase more than the -- the latest reduction. Because what's going to happen is, there's going to be an averaging out, or a means of the overall reductions over time. If that's the case, then not only is the amount of money underestimated by foregoing the additional six months of reductions that the law presently calls for, which are foregone, but you also have an increase in the amount of purchase that would be permissible for those countries that have received exceptions. Because if you average it out, the lowest point being the present point, but a higher point at a different time, that means you're going to rise (ph) the amount of oil that you can purchase.

DUBOWITZ:

Well, that's -- that's exactly right. I mean, there's some interesting indicators on where the oil issue may be going. First of all, President Rouhani has assumed in his budget that Iran will be exporting 1.5

million barrels per day. So, on the assumption that President Rouhani, if he is a better economic manager than his predecessor, is being conservative, he would assume that he has some expectation that over the next 12 months, he's going to be able to export 1.5 million barrels per day.

The second interesting economic indicator is that Iran's oil exports in October were actually down to about 760,000 barrels a day. They have now recovered in January to about 1.2 million. And so, you're starting to see the Geneva effect already on Iran's oil exports, as they begin to recover from 700,000 to over a million barrels.

The third -- third issue -- if I could just quickly finish on this -- and that is that, you know, your legislation closed a very important loophole that the Iranians have been exploiting, which was, allow them to export about \$1.6 billion a month in fuel oil and condensate (ph). So, over the six-month period of the Geneva agreement, because the legislation has not gone into effect, Iran will earn \$9.6 billion in fuel oil and condensate revenue, in addition to what they're earning on the oil side.

So, in total, you've got an oil sector that I believe the Iranians have estimated is going to start to recover. These barrels are going to start to flow. And I think the net effect of this -- and just to tie this into Dr. Albright's testimony -- is, if we even get a comprehensive deal with Iran, what leverage do we have left to ensure verification and enforcement of that deal? We're putting a lot of faith in the IAEA, and even in the additional protocol.

You know, if you read the Pentagon's Defense Science Board Report that was recently released, you see that our history of detection of breakout is not good. And the question is, even if we do detect Iranian breakout, how do we enforce it, when the Iranians engage in what they always do, which is they engage in incremental cheating on their nuclear program? Are we going to have the tough sanctions still in place so that we can lower the economic boom in order to force them back into compliance? Or will we have traded

away all our economic leverage so that we will have no enforcement mechanism left beyond threatening military strikes every time the inspectors aren't allowed into a facility?

And I'm -- I worry about -- that the administration has not done enough thinking post-deal on what kind of enforcement mechanism we're going to retain to ensure that the Iranians continue to comply with their responsibility.

MENENDEZ:

And I think that's a critical question. When I looked at Director of Intelligence Clapper's statement for (inaudible) intelligence community (inaudible) statement of that. In fact, Iran possess, as we heard here Secretary Sherman say, they have all the knowledge. The question is, have they made the decision to finally move forward towards nuclear weapons? Everything else is intact. So, if you have knowledge intact, and then if you have infrastructure -- nuclear infrastructure intact, you're just steps away from when you make that decision of moving forward.

And to the extent that Iran has arrested -- if it has -- itself from making that decision, it is only because of the consequences of sanctions that have been levied and enforced that have the ayatollah thinking about regime change, not from without, but from within.

And to the extent that that equation goes by the wayside, that there is no economic pressure to have the ayatollah be concerned about regime change, which is his primary purpose -- to preserve the regime, not to have it changed -- then it changes, it seems to me, the Iranian equation as to their drive to strike the type of deal that we've defined here would be necessary. And that is a real concern

And if ultimately, if we don't have the extensive list that Dr. Albright has listed, and that I think others would agree to, then we will fall short. The regimes -- the sanctions regime will evaporate. And the

only question for a future American president, if Iran, having still an infrastructure that is largely -- I'll say mothball (ph) -- having the knowledge, and the making the decision -- they'll be no sanctions, no time to enforce, to create, recreate an international order, and have sanctions be able to be pursued. So, that equation would be off the table. And the only thing left for any president will be, "Do I accept a nuclear-armed Iran, and what that means for the whole -- that whole part of the world?? Or "Do I have a military strike?" That is, an unenviable position to be in when, in fact, we could be in a much better position.

I see, Dr. Albright, you were leaning to try to make a remark. I'm not eliciting one, but if you have one, I'm happy to entertain.

ALBRIGHT:

I agree with you (ph). I'm thinking about what you're saying. And -- and I think the -- I mean, it -- it -- I -- it reinforces the need to both cut down the size of the program dramatically and increase the verification. And I think in the cases that we have, that when you have those two combinations, you can't verify it. I mean, U.S. intelligence may fail. But, again, I would argue, it's Western intelligence working together, and combined with cutback. And very intrusive verification can give you enough (inaudible) warning to provide sufficient time to mount a new effort.

But if you -- if in your case, you don't cut it back enough, then -- then I would agree that that could be what a future president faces -- accept it or go to war.

DUBOWITZ:

But, Chairman Menendez, I mean, I think to your point, you know, my concern is that the verification could be perfect. The detection could be perfect. But if you actually no longer have an option beyond a military strike, then you are in exactly the situation you've

described, which is a president -- a future president is in the position to choose between nuclear breakout or a military response.

I think what you've done -- what your committee has done -- what I think you're attempting to do with (inaudible) 1881 is, you're attempting to retain important economic leverage, which provided for a peaceful response to detection.

It -- it sends a message to the supreme leader that if you do try and cheat -- and every time you do cheap -- we are going to lower the economic hammer on you. And that's going to create the kind of domestic discontent that you are going to have to wrestle with, and that may be a threat to your regime's survival.

Again, my fear is that, despite the best work of David Cohen and -- and, you know, Peter Harold, (ph) and Amis Hawkstine (ph), and all the folks at Treasury and State, who are dedicated public servants who have done a tremendous job, that the market dynamics are shifting. That market psychology is -- is changing. And that the -- the -- Rouhani and the supreme leader understand that they can continue to diminish the efficacy of our sanctions because ultimately, greed drives markets. And if greed overrides fear, every company armed with a battery of lawyers or an army of lawyers is going to find a way back into Iran, despite the best assurances of -- of David Cohen and others.

MENENDEZ:

Well, with the thanks of the committee for both of your testimony and your work, I look forward to continuing to engage with you as we review the progress, or lack thereof, made in the days ahead.

The record will remain open to the close of business on Thursday. And this hearing is adjourned.

CQ Transcriptions, Feb. 4, 2014

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