

Implementation of the Iran Nuclear Deal

**Testimony before the Joint Middle East and North Africa as
well as Terrorism, Nonproliferation, and Trade Subcommittees**

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The Honorable Mark D. Wallace

INTRODUCTION

Chairman Ros-Lehtinen and Chairman Poe, members of the Joint Subcommittee, thank you for the opportunity to speak before you today. Today's hearing on Iran is as important as it is timely. With respect to importance, I need hardly tell you about the dangers posed by Iran's relentless pursuit of nuclear weapons. Iran's quest for nuclear weapons capability is the greatest single security threat facing the United States today.

At United Against Nuclear Iran (UANI), we are deeply concerned about whether the Geneva Joint Plan of Action (the "Joint Plan" or "Interim Agreement") will advance U.S. national security and foreign policy goals. While we sincerely hope that a comprehensive and verifiable agreement that rolls back Iran's nuclear program is reached in 6 months, the prospects appear dim at best.

The Joint Plan has provided disproportionate sanctions relief to Iran, and given that Tehran will not dismantle a single centrifuge, Iran has not *rolled back* its nuclear infrastructure. With the thousands of centrifuges that it is currently operating and has installed, Iran will retain, even if it abides by the full terms of the agreement, the ability to breakout and produce enough weapons-grade uranium for a nuclear weapon in as little as *2 months*. At the same time, the carefully constructed sanctions architecture developed over *decades* has been *significantly rolled back*.

The question today for all of us – members of this committee and all of the Congress – is what would be an acceptable scope and size of Iran's enrichment program and whether we will permit Iran to operate the heavy water reactor at Arak. Iran claims that its program is peaceful in nature and that it is solely for civilian nuclear energy and medical purposes. To be clear, if

Iran truly only sought a civilian and peaceful nuclear energy program, there would be zero need for any enrichment capacity or the heavy water reactor. Many countries have peaceful nuclear energy programs without engaging in enrichment nor operating heavy water reactors. The international community seems to have all too quickly forgotten that there are multiple UN Security Council Resolutions calling for Iran to suspend **all** enrichment. Regrettably, the Geneva Joint Plan seems to declare that in any final accord, Iran will be permitted to enrich and is at best vague regarding the future of the IR-40 heavy water reactor at Arak.

Today you will hear a range of opinions on what “an acceptable” Iranian enrichment program would look like and the dangers of Iran’s operation of a heavy water reactor. The range of debate will likely focus on the parameters of a final accord whereby Iran is limited to between 0 and 4000 first-generation IR-1 centrifuges. We should all agree that extending Iran’s ‘breakout time’ from its current 30-60 days to well beyond a year is the imperative. But does any serious person believe that Iran is prepared to dismantle between 15,000 and 19,000 centrifuges, and forego the installation of far more efficient and advanced IR-2 centrifuges? Clearly not.

With respect, each and every member of this committee and the United States Congress should make his or her position known on the acceptable levels of Iran’s enrichment capacity and its operation of the heavy water reactor – the IR-40. The U.S. Congress must become involved in this debate and weigh in on the essential principles that would underpin any final nuclear agreement with Iran. It is quite an appropriate role for Congress to play, given its authority in passing, lifting and potentially increasing sanctions against the Islamic Republic.

THE DEAL IS DISPROPORTIONATE

As Foreign Minister Zarif and President Rouhani have become the toast of diplomatic and business circles, it has become increasingly clear that the Joint Plan is disproportionately in Iran's favor. The administration touts that the agreement has halted Iran's nuclear progress, but this is not true. During the duration of the accord, there are a number of ways by which the Iranian regime will continue to develop its nuclear program. For example:

- Iran will continue to perform excavation and civil construction work at the Arak Heavy Water Reactor, which is considered a prime proliferation threat.
- Iran will continue to perform ongoing R&D activities that preceded the agreement. As one component of its ongoing R&D, Iran will continue experimenting with a range of advanced centrifuges that are multiple times faster than their predecessors. This could eventually put Iran's breakout time at a matter of weeks, if not days.
- Iran will continue long-range ballistic missile testing, which is a central component of a modern nuclear weapons program.
- Iran retains its entire stockpile of low-enriched 3.5% uranium, which is enough to build six nuclear bombs if enriched to weapons-grade. While Iran is diluting and converting its 20% enriched uranium stock, it is a dangerous canard to say that this puts Iran much further away from a bomb. Due to the non-linear, exponential nature of the uranium enrichment process, by enriching to the 20% level, Iran has already done 80% of the work necessary to reach weapons-grade uranium.

By any definition, Iran will continue to make substantive progress on its nuclear program.

THERE IS NO SUCH THING AS 'SANCTIONS EASING'

So what have we given Iran, in return for these superficial concessions? The White House has described the sanctions relief provided in the agreement as “economically insignificant” and insisted that “Iran's economy will also continue to suffer.” David Cohen, the U.S. Treasury Department official tasked with enforcing the U.S. sanctions program declared, “I am confident that the sanctions pressure on Iran will continue to mount. **Iran will be even deeper in the hole six months from now**, when the deal expires.” We find such pronouncements fully disconnected from the true condition of Iran’s economy, which is blossoming.

Proponents of this agreement do not appear to understand the fragility of sanctions, or the dangers of rolling them back and easing the economic pressure on Iran. The four interdependent elements of a successful Iran sanctions regime are (1) increasingly strict laws and regulations, (2) enforcement action, (3) reputational risk, and; (4) the psychological impact on the Iranian economy. Regrettably, the run-up to and the adoption of the Joint Plan have undermined each of those four elements, and as a result, the architecture of the sanctions regime is crumbling. This is underscored by hard data:

- **First:** A key measure of economic pressure on Iran is the value of its currency, the rial, which is reflected in the black market value exchange rate. Last year, with economic pressure at its peak, Iran suffered from severe hyperinflation, and the rial became the least valued currency in the world. Since Hassan Rouhani was elected president on June 14, the Iranian rial has increased in value by more than 25%, from 36,500 rials/dollar to

29,000 rials/dollar today, which is also up from record-lows of 40,000 rials/dollar in February 2013. Correspondingly, inflation is steadily falling.

- **Second:** Since Rouhani's election, The Tehran Stock Exchange index has increased by nearly 100%, from about 45,000 points to over 80,000 points. Consumer confidence in Iranian commerce and companies has skyrocketed.
- **Third:** Iran's oil exports have increased nearly 60% from October 2013 to January 2014. At the time of the signing of the Geneva agreement on November 24, a senior administration official said, "Iran's oil exports will remain steady at their current level of around 1 million barrels per day." Unfortunately, even before the January 20 implementation of the agreement, Iran's oil exports rose to 1.2 million barrels/day (bpd), from historically low levels of 761,000 bpd in October 2013. It is clear that the Geneva agreement and the run-up to its signing changed the market psychology and reduced risks for oil buyers. Now that the agreement is being implemented, Iran's oil exports are in a position to increase further as tanker insurance provisions are relaxed and shipment costs for the Iranian oil sector are reduced. Moreover, had the oil sanctions continued, Iran's daily oil sales would have continued to plummet and by the end of 2014 Iran's daily oil exports could have fallen to 500,000 bpd or less.
- **Fourth:** As reported by *The New York Times*, "In the first two weeks of the year, Iran welcomed more [trade and diplomatic] delegations from Europe than in all of 2013." Governments are eager to ensure that their national companies are the first ones to get their foot in the door and benefit from the large Iranian market.

- **Fifth:** Dozens of leading multinational corporations are publicly pursuing the renewal or expansion of their business in Iran. With the momentum of sanctions reversed, and a budding expectation that the sanctions regime could soon be lifted in its entirety, companies no longer see the same reputational and financial risk of doing business with a terrorist regime.

You may be surprised to learn that much of these economic gains were achieved well before the signing of the Geneva Agreement on November 24 or its implementation that began this past week. In fact, the momentum of an ever strengthening international sanctions regime was halted following Rouhani's election in June 2013 in an apparent effort by the U.S. to court the regime and to set a tone for renewed negotiations. One clear indication of the administration's efforts to court Rouhani is its less aggressive approach to enforcing sanctions since his election. In 2013 before Rouhani's June 14 election, the U.S. Treasury Department designated 183 entities as having violated Iran sanctions. Since Rouhani's election, the U.S. has only blacklisted a total of 29 entities. When the U.S. Treasury designated 19 Iran sanctions violators on December 12, 2013, Iran falsely claimed that the U.S. had violated the Joint Plan and temporarily walked out of negotiations to implement the interim nuclear agreement. UANI is deeply concerned whether the Obama administration will hold to its pledge to maximally enforce sanctions, or if its enforcement team will continue walking on eggshells in order to avoid offending the Iranian regime, which may use enforcement as a pretext to subvert the accord.

The White House characterizations of sanctions as a spigot that can be turned off and back on are therefore clearly unrealistic. While the White House estimates that Iran stands to receive \$6 billion to \$7 billion in sanctions relief through the agreement, the true value of the sanctions relief is well more than \$20 billion when accounting for the full macroeconomic picture in Iran. By rolling back sanctions now, the international community is significantly lessening the pressure on Iran's economy. Six months from now, we believe there will be far less pressure for Iran to actually make material concessions on its nuclear program. It is no wonder that Rouhani believes that “the world powers surrendered to Iran.”

IMPLICATIONS FOR THE NUCLEAR NONPROLIFERATION REGIME

If Iran is permitted to retain an industrial-scale enrichment program, it is important to stress that it will likely do irreparable damage to the Nuclear Nonproliferation Treaty (NPT), a vital pillar of international security. In upholding its so-called right to enrich, Iran often refers to the “double standards” of the “arrogant powers” who are preventing Iran from exercising its “inalienable rights” to nuclear energy. In fact, by asserting that it “will not accept any limitations” on its nuclear program, the Iranian regime is actually seeking special treatment and asserting that it is above international norms. The fact is that the majority of countries with nuclear power programs do not possess domestic uranium enrichment programs because of the proliferation threat and the great economic cost of such projects. Given its immense oil and natural gas reserves, it is of course economically nonsensical for Iran to build its enrichment capacity unless of course it had a clear ulterior motive – a nuclear weapon.

At UANI, we urge policymakers to preserve the "Gold Standard" for U.S. nuclear non-proliferation policy as negotiations continue with Iran. Under the "Gold Standard", NPT signatories such as South Korea, Taiwan, Turkey and the United Arab Emirates have developed peaceful nuclear energy programs in cooperation with the U.S. while voluntarily eschewing domestic enrichment or reprocessing capabilities due to the inherent proliferation risk. All told, there are 17 countries that have a nuclear-civilian-cooperation agreement with the U.S. and do not have enrichment or reprocessing activities on their soil. Simply put, it will be nearly impossible--politically and diplomatically--to expect allies and other countries (the 'responsible actors') to forego nuclear fuel-making activities if in a final agreement, we allow Iran, one of the worst global actors and an egregious violator of international law, to retain domestic enrichment on its soil and at an industrial-scale. This will put the cause of nuclear nonproliferation, particularly in the volatile Middle East, at profound risk, and be totally contradictory to President Obama's priority of creating "a world without nuclear weapons."

TO WHAT END A FINAL AGREEMENT?

The ultimate purpose of the Interim Agreement should be to reach a final accord that resolves all outstanding concerns about Iran's nuclear program. However, the views of Iran and the U.S. on what a final deal should look like are so fundamentally different that it is quite clear that a final agreement will not be able to be negotiated within these six months. For example, while President Obama says Iran does not need the underground fortified Fordow facility, the Arak heavy-water reactor, or advanced centrifuges "in order to have a limited, peaceful program," Rouhani just declared in a CNN interview that Tehran "will not accept any limitations" on its nuclear program and that Iran would not destroy any centrifuges "under any

circumstances.” There is no reasonable room for compromise when the Iranian regime has already laid out maximalist positions that show it is not prepared to negotiate in good-faith and rollback elements of its nuclear program.

The White House needs to be much more assertive in stating what it seeks in a final agreement, and Congress must actively take part in this process and make its position known. If the White House refuses to engage in such a discussion, Congress must take up the debate itself on the House and Senate Floors. It is vital that the U.S. make clear to Iran that in any final deal, it will not be permitted to retain an industrial-scale nuclear program. We believe that this would entail capping the number of IR-1 centrifuges to a small fraction of the the nearly 20,000 Iran currently possesses or, more appropriately, none at all. If Iran is able to retain its industrial-scale infrastructure, it will be able to ‘breakout’ at a time of the Supreme Leader’s choosing. In a final agreement, Iran must be at least 18 months away from breakout given the long history of duplicity on its nuclear file.

We respectfully call on Congress to debate this matter paramount to our national security and ensure that any final accord Iran will not be able to breakout in a time period that would be inconsistent with our abilities of detection and our abilities to act.

CONGRESSIONAL SANCTIONS DEBATE

Given that Iran is clearly not prepared to negotiate in good faith over its nuclear program, UANI strongly supports efforts to impose sanctions on Iran in six months’ time if no final accord is reached. The Senate's "Nuclear Weapon Free Iran Act," which has the support of a bipartisan majority of U.S. Senators and contains humanitarian carve-outs, reversibility, broad

discretionary and waiver authority for the President, and delayed implementation corresponding to the Geneva agreement, would achieve just that.

It is greatly disappointing that the White House is characterizing those who support new Iran sanctions or question the Joint Plan as dishonest warmongers. It is nonsensical and out of bounds to say that a bipartisan majority of U.S. Congressmen secretly want war with Iran. As President Obama has stated, sanctions are a non-violent policy tool used to avoid war, and they succeeded in severely weakening and isolating the Iranian regime and its economy, and bringing Iran back to the negotiating table.

If the White House has reservations with the content of the legislation, it should work collaboratively with Congress to address those issues. But rather than take such initiative, the administration instead has chosen to slander Congressmen as warmongers. It is time for the White House to work collaboratively with Congress and commit to new sanctions should Iran fail to live up to its commitments.

CONCLUSION

History offers a disturbing precedent for the trajectory of the Iran nuclear file. In the 1990's the United States had entered into a similar interim nuclear agreement with North Korea. That agreement, called the Agreed Framework, was to be temporary and lead to a final accord fully resolving the nuclear issues between the DPRK, the U.S. and the international community. Regrettably, the Agreed Framework became the proverbial can that was kicked down the road. No final agreement was ever struck, the Agreed Framework was passed along and the DPRK surprised the world with a nuclear weapons test. The Joint Plan has many of the hallmarks of the Agreed Framework. All of us must ensure that the Joint Plan does not become

the Agreed Framework II. To prevent this, Congress must make clear that if there is no final agreement after the Joint Plan's initial six month duration that Congress will adopt and impose more robust sanctions. The Joint Plan must not become a de facto final accord. We must learn the lessons of history and not repeat its mistakes.

Today we respectfully call on Congress to enact new sanctions on Iran to be imposed in six months in the event that no final accord is achieved and respectfully call on Congress to make clear the acceptable levels of enrichment, if any enrichment, that Congress would accept in order to end sanctions. Iran must know that if it continues on its nuclear path it will face ever growing financial and diplomatic isolation. Iran must know that if it does not reach a final accord with the United States and its allies after the Joint Plan's six month period it will face more sanctions.

Honorable Chairs, distinguished members of this Subcommittee, thank you for taking the time to allow me to discuss UANI's views on the current status of negotiations. We stand ready to work with you in any possible way.