Beyond The Vote: Implications for the Sanctions Regime on Iran

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Thank you all very much. And thank you, I think, to Patrick, for setting this up in a way that's far worse than a Q&A could ever be. We're going to have three extremely intelligent, thoughtful people debating among themselves, where the subject of the debate seems to be, how *much* did I get wrong? [Laughter]—each trying to best the other in illustrating it—and I'm confident that they'll really pull this to pieces. So, if you want to step out and get a drink, you can just come back for that and hear everything I missed. And maybe I'll come back when they're done and dissect their morning-after review.

It really is a pleasure to be here at The Washington Institute. I want to thank the leadership of the Institute and Matt, in particular, for reaching out to me with the invitation. I also want to congratulate you all for the beautiful space. This is my first time here, and it really is very impressive, as it should be, given the role and the prominence that the Institute has. So, congratulations to all of you who work here, and who have benefited from the Institute's work over the years.

I'm here, obviously, to talk about the Iran deal, particularly with a focus on the sanctions, and I think I'm getting feedback...Clearly, for this administration, as was true for the prior administration, preventing Iran from acquiring a nuclear weapon was a national security priority of the highest order. An Iran in possession of a nuclear weapon would directly threaten not just our security but the security of Israel, their allies in the region, and, frankly, the rest of the world. That's why the agreement that we reached, in the Joint Comprehensive Plan of Action (JCPOA) is so critical. Working with our allies to impose a powerful set of U.S. and international and multilateral sanctions, we effectively isolated Iran from the world economy. And across the prior two administrations, and with bipartisan backing in Congress, we obtained four tough UN Security Council resolutions and built upon our longstanding U.S. embargo to create truly the most crippling sanctions regime that has ever been built.

Our sanctions worked as intended. They helped to bring Iran to the negotiating table, and they allowed us to reach a comprehensive agreement, an agreement that closes every pathway to an Iranian nuclear weapon. In return, but only after Iran has taken key verifiable steps, we will suspend our nuclear-related sanctions, alongside our international partners. It is critical to note—and it's a point I'm going to come back to later—

that the JCPOA does not in any way affect our sanctions that touch on Iran's support to terrorist groups such as Hizballah, Palestinian Islamic Jihad, other destabilizing proxies, such as the Qods Force, the Islamic Revolutionary Guard Corps (IRGC). It doesn't touch on Iran's abuse of human rights and other areas, such as their support to Bashar al-Assad in Syria and the Houthis in Yemen.

I've spent much of my last ten years at the Treasury Department focused on stopping this range of Iranian destabilizing activities, and I am keenly aware of the many ways that Iran foments terror and destabilizes the region. Our powerful authorities to combat these activities remain in place, and I and the people I work with at Treasury, and across the U.S. government, are firmly committed to enforcing these sanctions as vigorously as possible.

Since the final agreement, the JCPOA, was announced roughly two months ago, there has been considerable and impassioned debate—among the most interesting and important foreign policy debates that we've seen in recent years. During this period, I and others at Treasury have engaged intensively with members of Congress and with the public to make sure that the issues are debated on the facts—to ensure that the debate is informed by a clear and realistic sense of the choices that we have before us. Today I would like, with your permission, to address a few of the key points on the sanctions side of the deal, including the impact of the relief that will be extended to Iran under the JCPOA, as well as the relief that will not be extended to Iran under this deal: the extensive range of sanctions that remain in place. And finally, I want to turn to our strategy as the office that spearheads the U.S. sanctions effort, as we move forward in the coming months and years, to combat Iran's other destabilizing activities and to hold Iran to the terms of this deal.

So, first, let me start with the money—the foreign reserves—it's probably the question I get more than any other. I've heard questions about Iran's $50 billion, Iran's $100 billion, Iran's $150 billion, and even figures beyond that, in terms of the supposed windfall. I've also heard a whole range of suggestions as to when Iran gets the money, and heard it described as a signing bonus. So let me allay some fears on that ground. The true figure of the Central Bank of Iran's total usable assets worldwide is about $50 billion. That encompasses both the funds they can spend today, while the sanctions are still in place, and the funds that they will have access to when they complete, *should* they complete, all the nuclear steps and gain access to their embargoed foreign reserves. It's about $50 billion total. The reason that that number is $50 billion and not $100 billion or more is that the majority of the reserves on Iran's books are already committed, or illiquid. They're simply not available—and, to describe it politely, you'd have to call them book entries only. Over $20 billion Iran has obligated as collateral for projects with China. That cannot be spent. Tens of billions of these reserves consist of nonperforming loans to Iran's energy and banking sectors, funds that are not going to be repaid and are not available to Iran. This explains why statements from Iran's own finance officials, including their Central Bank governor and their economy minister, have suggested to Iran's press and to their public that they may have access *after* the relief comes into effect to as little as $30 billion. But $30 billion is still quite a lot of money, and certainly $50 billion is a lot of money, and we've all seen what Iran can do with small sums in its incredibly efficient use, and deadly use, of proxies.

So, let me speak to what this relief means. First, I want to note up front that the release of Iran's reserves was a foreseen and, I would say, a necessary part of any nuclear deal that anyone was going to reach with Iran. To say that those funds shouldn't go back to Iran, to me, is tantamount to saying that we shouldn't deal with Iran's nuclear program as a separate agenda item. We should rather wait and try to solve Iran comprehensively: its support for terrorism, its human rights abuses, the whole range of concerns that we have with Iran—and I don't agree. I don't think that we have the time, frankly, to wait to address a nuclear program, when Iran was just two to three months away from enough fissile material for a nuclear weapon. And if one is of the same mind that I am—that we need to address the nuclear program, that it is the most urgent and the most serious of all of the threats posed—then the release of Iran's foreign reserves, and the allowance to foreign countries to begin to resume purchasing Iran's crude oil, those were the terms of the deal. I often say: those are the quid for the nuclear quo in any deal that anyone was going to strike. Whether you're imagining a deal that foreign governments have suggested or members of Congress have suggested, those funds go back to Iran.

But let me also put the money into context. And I do so knowing that I'm standing here next to Patrick, who has written in a very learned way for many years about Iran's economy. The about $50 billion is not Iran's spending money for 2016. This is the sum total, the entirety, of their foreign reserves. Iran will need to hold a large portion of these funds, unspent, to defend their currency, the rial, as well as to finance tremendous pent-up demand for imports. And anyone who's studied Iran's economy knows how dependent they are on foreign imports. As a point of reference, $50 billion, which is enough to finance about five to ten months of imports for a country Iran's size, is equivalent to the foreign-exchange buffer that the IMF recommends is prudent to be held in reserve in its entirety. In other words, the IMF recommendations for a country of Iran's size would be to spend zero of the $50 billion. But clearly, given the built-up expectations in Iran, we do assess that they're going to spend that money.

So what will they do with it? The Iranian people and their leadership are desperate to deliver on the economic benefits of the deal. Even before oil prices fell, punishing sanctions had put Iran's economy in a massive hole. Our economists estimate that Iran needs about a half-trillion dollars—that's $500 billion—to meet pressing investment needs, government obligations, including $100 billion to satisfy unfunded state and military pensions, debts to the domestic banking sector, $100 billion to complete needed infrastructure, $170 billion to rehabilitate its oil and gas sector and replace lost capacity, among other obligations. And when I say $170 billion for the oil sector, I'm not talking about to upgrade to the very latest in oil and gas technologies, I'm talking about to bring them back to scratch—to a rudimentary, functioning oil and gas sector. That $170 billion alone.

The Iranian president, Hassan Rouhani, was elected on a platform of economic revitalization. He faces a political imperative to live up to his promises. He and his administration have publicly indicated that they plan to use any foreign assets that are freed to invest in the country's infrastructure, and the Iranian people are watching anxiously to see him keep his word. Notably, the Iranian people, who voted for Rouhani with an expectation of economic relief, have not seen any relief as part of this nuclear deal. There was no signing bonus. The sanctions regime changed in no way after the agreement was entered into two months ago. The only time relief will arrive—new relief—is if Iran completes all of the needed nuclear changes that they've committed to, closing off all of the pathways, as the president has said, to a nuclear weapon. So, Rouhani's promise remains very much a promise—a promise on which he has yet to deliver.

Nevertheless, despite our assessment that the great majority of these funds are either going to be set aside or used for domestic economic priorities, we do not take the release of any of these funds lightly. Certainly, as someone who's been tracking Iran's spending on groups like the Qods Force and Hizballah for over a decade, I cannot take the release of those funds lightly.

We know Iran for what it is. We know it to be the world's foremost sponsor of terrorism, we're keenly aware of its nefarious activities in the region, and we've invested years in devising intricate sanctions to frustrate its objectives. We are now redoubling those efforts, as I will detail in a few minutes. But, I argue, Iran's relationship with terrorist groups is exactly why securing a nuclear deal was so important. I vividly remember sitting across the table with Israeli government officials in the mid-2000s—2006, 2007, 2008—and hearing that Iran posed a range of threats to the Israeli government and the Israeli people, but only one was an existential threat. It was the possibility that Iran could obtain a nuclear weapon—and with it, the nightmare scenario that the world's leading sponsor of terrorist groups would have the world's most destructive capability. It is, for those reasons, imperative in my view that we take that nuclear threat off the table, and then turn intensively to combating the remaining conventional threats that Iran poses.

So, with that, let me take up the sanctions that remain. First, despite some public confusion on this point, the U.S. embargo on Iran remains nearly entirely intact as it is today. U.S. investment in Iran will be prohibited across the board. Iran will not be able to open bank accounts with U.S. banks, nor will Iran be able to access the U.S. banking sector, even for that momentary transaction to, what we call, dollarize a foreign payment. It was once referred to as a U-turn license, and Iran was allowed to make such offshore-to-offshore payments that cross U.S. banking sector thresholds for just a second. That is not in the cards. That is not part of the relief offered under the JCPOA.

So, the U.S. sanctions on Iran, which, of course, had their origins long before Iran had a nuclear program, will remain in place. Moreover, our whole range of sanctions authorities targeting Iran's support for terrorism, destabilizing regional activities, missile proliferation, and human rights abuses remains in place. Under the JCPOA, more than two hundred Iranian-linked companies and individuals will remain designated, will remain on the Office of Foreign Assets Control (OFAC) list, including major Iranian firms in the military, defense, engineering, construction, and energy fields. And secondary sanctions continue to apply to all of these Iran-related individuals and entities.

Let me explain what I mean by secondary sanctions. What I mean is that a foreign bank—a German bank, a Chinese bank, a Singaporean bank—that does business with any of those companies or individuals that I just mentioned faces a total cutoff from the U.S. financial system. It is a very stark threat, and one that our foreign banking counterparts do not take lightly, I can assure you. To just give you a sense of some of these names: We are not providing any sanctions relief to the IRGC, or to its Qods Force, or any of its officials or subsidiaries. Its subsidiaries include entities such as Bonyad Taavon Sepah, one of the largest *bonyad*s in Iran's financial system; the IRGC's construction arm, Khatam ol Anbia; its oil and gas engineering company, Sepanir; Mahan Air, one of the largest state-owned airlines in Iran; or Bank Saderat, what had been one of the largest commercial banks in Iran. Every one of those firms and, as I said, another two hundred are off-limits not just to U.S. firms but to foreign banks as well.

Sanctions will also remain in place on key Iranian defense entities, including the Ministry of Defense for Armed Forces Logistics (MODAFL), the Defense Industries Organization, the Aerospace Industries Organization, which has done much of their missile work, and other key missile entities, including Shahid Hemmat Industrial Group and Shahid Bakeri Industrial Group.

We are also retaining sanctions on Iranian firms such as the Tiva Sanat Group, which, as many of you know, worked to develop a weapons-capable fast boat to be used by the IRGC navy. We're retaining sanctions on the Iran Aircraft Manufacturing Company, which has manufactured unmanned aerial vehicles (UAVs) to be used by the IRGC, as well as a host of third-country firms that have assisted in these activities.

Many have called for clarity on this issue, so let me emphasize: if a foreign bank facilitates a significant transaction with any of the Iran-linked persons I just named, or any others who remain on our Specially Designated Nationals (SDN) list, or OFAC list, it risks losing its access entirely to the U.S. financial system.

These sanctions don't just continue on the books, they will continue to be enforced.

While our focus, obviously, in embarking on the JCPOA is on a successful implementation, we of course must also guard against the possibility that Iran does not uphold its side of the bargain. So let me speak for a moment about enforcement of the deal, both with an eye toward deterrence and with an eye toward punishing any violations. And this is what's often in shorthand referred to as snap-back, an issue that largely falls to sanctions enforcement. Should Iran violate its commitments once we have suspended sanctions, we have the mechanisms to snap them bank into place. For U.S. sanctions, it's a relatively straightforward procedure, and the sanctions can be restored in a matter of days. But importantly, multilateral sanctions at the United Nations can also be reimposed quickly through a mechanism that prevents any one country, or any group of countries, from standing in the way of snap-back should one of the P5, the permanent five members [of the UN Security Council], seek their restoration. What that means is, if the United States hypothetically goes to seek the restoration of UN Security Council sanctions that are suspended under a deal, even if all four [other] members of the P5 oppose, those sanctions go back into place.

Now obviously, that's not a scenario that I would envision. In the event of an Iranian breach, I would think that we would at least be working with our close partners, the Europeans in the P5, and ideally with all the signatories to this deal, who have all invested a tremendous amount in negotiating the deal and want to see Iran hew to its commitments. But it is worth noting that we have the possibility of working alone if need be.

Some have expressed concerns that if sanctions were reimposed, companies would be exposed to sanctions for doing business in Iran that was consistent with the JCPOA while the relief was in effect. And this raises the question I often hear these days about grandfathering. There is no grandfather clause in the JCPOA that would protect preexisting contracts against snap-back. What the deal provides is that business that is done during sanctions relief—business that was legitimately done at a period when sanctions were suspended—will not be retroactively punished should we later on put sanctions back into place. But if we put sanctions back into place, let's say, in the year 2020, the fact that a contract was entered into in 2016 gives it no special status under this agreement whatsoever. And any new transactions on that contract are just as subject to sanctions as any new contract would be.

To those who have raised questions about Iran committing and aggregating a series of minor violations over time, I want to clarify that if there are small violations, we have a host of calibrated penalty tools to respond. We retain full flexibility—from small measures to sectoral measures to full snap-back of the current sanctions—and we won't hesitate to use our tools if Iran cheats. Certainly, we know that the maxim "If you give an inch, they'll take a mile" applies very much in this case.

I've also heard the question recently, once you give Iran relief, you won't have the ability to snap anything back because your leverage will be all gone. Iran will take its money back to Tehran, and there won't be any foreign funds to restrain, or to block. Certainly, working in a building of economists, I have long ago been taught that that is not a possibility. A country's foreign reserves need to remain foreign if they're to be of any use. And while Iran can take some amounts of money—and it has—back to Tehran to metaphorically put it under its mattress, it does so in gold or in bills in a form that's of very limited use for the things countries need foreign reserves for. As I was describing earlier, to finance their imports, you can't do that with gold bars in a vault. And you can't do that with your own notes. You need funds in banks in major banking centers. And, in fact, if I had to predict—if the relief goes into effect, Iran will move its—and diversify its—foreign reserves into places like Europe, which are even more subject to our allies' pressure than they are today. As a result, I expect that if Iran fails to abide by its obligations, we will be in a position to reimpose enormous pressure. And of course, as with many agreements, the point isn't to do so, the point is to telegraph that we have the means and the capability to do so—and the will to deter violations.

So, let me now come back to the range of Iran's activities outside of this nuclear deal, because they are so important. The JCPOA in no way limits our ability to target Iran's destabilizing activities, and we have made our posture on this point clear not just to our negotiating partners but to Iran as well. We will use all of the tools at our disposal as a government to target the full range of Hizballah's activity, including terrorism, criminal activity, and its destabilizing conduct in the region. I'm standing before you as a sanctions official, but I can say to you on behalf of the entire administration—whether it's our tools out of the State Department, out of the Defense Department, out of our intelligence community, out of the Treasury Department, all of these tools are tools that we draw on in going after groups like Hizballah, and it's imperative that we do so.

We've taken some key actions on the sanctions front that bear notice. Just this past June, we sanctioned a large Lebanese real estate, construction, and development firm, Al-Inmaa Engineering and Contracting, which has used its projects in Iraq to provide both financial and organizational support to Hizballah. The company's majority owner, Adham Tabaja, was also designated. He maintains direct ties to senior Hizballah organizational elements, including the terrorist group's operational component, the Islamic Jihad. And he holds large properties in Lebanon on behalf of Hizballah. Those of you who are familiar with our work know that he's precisely the type of target that we try to go after: somebody who is key in terms of supporting a terrorist group's activities but somebody who is trying to retain one foot in the licit, the legitimate, world and therefore has a tremendous amount to lose.

This action built on earlier efforts to target Hizballah's commercial interests globally, beginning with the group's main financial body, Bayt al-Mal, which we designated about ten years ago. Serving as Hizballah's bank creditor and investment arm, Bayt al-Mal operates under the direct supervision of Hizballah secretary-general Hasan Nasrallah. We went after the Tajideen brothers, Kassim, Ali, and Hussein, and the network of businesses that they maintain in Africa and in the Caribbean. The Tajideen brothers use companies to provide millions of dollars of support to Hizballah. In 2014, we designated a Hizballah procurement network operated by brothers Kamel and Issam Amhaz out of Lebanon and the United Arab Emirates (UAE) that they were using to purchase sophisticated electronics and other technologies from suppliers around the world. Their electronics business, the Stars Group, and its subsidiaries were contributing directly to Hizballah's development of UAVs—UAVs that were used to support Hizballah's military activity in Syria and to conduct surveillance over Israel.

Hizballah's leader, Hasan Nasrallah, recently took a very unusual step. He spent about half of a speech he gave—a long speech on July 25—specifically speaking about sanctions and decrying our sanctions. While Nasrallah attempted to categorize the designations as an attack on the Lebanese economy as a whole, they are no such thing. Our sanctions are directed at specific individuals and companies that are working on Hizballah's behalf, and we read this speech, in fact, as an indication that our designations are having an impact at the highest levels on Hizballah's thinking, as well as their ability to conduct business and finance even in places like southern Lebanon.

We will continue our campaign against Hizballah's sponsors. We will continue our campaign against the IRGC and the Qods Force—and, of course, against their support to the Assad regime.

I want to note one other set of designations. In May of this year, we went after a network involved in procurement of aircraft and parts for Iran's Mahan Air, a key node in the IRGC Qods Force logistics network. Mahan Air was used to facilitate arms transfers and financial support to proxies in Syria and Iraq. And I shouldn't use the past tense: it still is used in that way. We continue to expose Mahan's front companies, and to remind governments and private industry in the twenty-four cities where Mahan continues to fly that they risk exposure to U.S. sanctions. And there should be no doubt about our willingness to pursue those sanctions in the weeks and months to come.

Finally, and importantly, as we pursue all of these lines of activity, we are strengthening our longstanding cooperation with our allies in the region and internationally to be able to maximize our pressure against these destabilizing activities. At the U.S.–Gulf Cooperation Council security summit at Camp David in May, we committed to working more closely with our Gulf partners to counter Iran's destabilizing activities, including engaging in greater cooperation on the terrorist-financing front. This was not just words. You saw the kingdom of Saudi Arabia recently sanction two top Hizballah commanders who we had previously designated: Khalil Harb and Muhammad Qabalan. These two individuals were directly implicated in facilitating Hizballah terrorist organizations. And in announcing the designation, Saudi Arabia named Hizballah a terrorist organization, in toto.

Other GCC states have also taken important steps to build the legal and institutional frameworks to deploy these types of measures. In August of last year, the UAE adopted a robust new counterterrorism law, with new provisions targeting money laundering and the financing of terrorism, and giving them the necessary legal foundations to take actions against what they described as regional threats.

Pursuant to a bilateral terrorism finance task force that we initiated when Treasury Secretary Jacob Lew visited the UAE last year, we are now cooperating more closely with the UAE on terrorist financing and illicit finance writ large.

We understand, of course, that the Gulf states, and Israel, see the Iranian threat with profound concern. I just visited Israel three weeks ago to discuss how we can build on our longstanding cooperation and how we can intensify our work against all these lines of activity. Our targeting work, our intelligence work, our sanctions work, in a post-JCPOA world, may be different, but it will be no less challenging and certainly no less important.

The JCPOA is built to eliminate Iran's nuclear threat and the potential for any of Iran's proxies or affiliates to acquire a nuclear weapon. But, of course, the terrorism threat and the threat to regional stability, no matter how conventional, pose a very serious concern. Our joint goal—and one we share with our Israeli and Gulf partners—is to ensure that we're using all of our tools, including sanctions, to combat all of these conventional activities. And our alignment of interests has not frayed in the period of these negotiations or during the weeks since the agreement was concluded.

I have to tell you, in my meetings in Israel, we had very detailed, constructive conversations about next steps, and my next trip will be to visit Gulf partners at the end of October. I want to close by again underlining that the JCPOA is a strong deal. It makes the United States and our allies safer by ensuring that the nightmare scenario that I mentioned earlier does not come close to becoming a reality. The deal is not based on trust but on verification and on scrutiny. We need to neutralize this near-term threat, and in this agreement we have. Enforcing the JCPOA, though, making sure that Iran remains in compliance, will be among my highest priorities. And combating Tehran's other destabilizing activities will be a continuing focus for my office, as I said, in the weeks and months to come. And I personally will be spending a great deal of my time and energy on that issue. Across all of our efforts, we will remain vigilant and serious in enforcing our laws. This situation demands no less. Thank you very much.