Testimony Before the Senate Foreign Relations Committee
Iran: Status of the P5+1

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Chairman Menendez, Ranking Member Corker, and Members of the Committee, thank you for inviting me to discuss the United States' diplomatic efforts to end the threat posed by Iran's nuclear ambitions. I have closely followed the P5+1 talks since their inception – first as an aide to the Secretary of State, then as the official responsible for Iran at the National Security Council, and now as a research scholar – and I while I strongly support a diplomatic resolution to the Iran nuclear crisis, I am concerned at the juncture at which we now find ourselves.

Our negotiators' mantra with regard to these negotiations is, as it should be, that "no deal is better than a bad deal." But how can one tell a good deal from a bad deal, from the point of view of the United States?

- A good deal is one which clearly advances American interests – not only our interest in nuclear nonproliferation globally, but in the stability of the Middle East and our prestige and influence in that region, which has in recent years declined sharply.
- The talks are a diplomatic effort to address the grave threat to our interests – shared with our allies in the region and beyond – posed by Iranian nuclear efforts.
- As in any negotiation, any agreement must also be acceptable to Iran; but whether any particular deal is acceptable to Iran depends not only on the content of that deal but on whether Iranian authorities believe the alternatives to the deal would be worse.

Our negotiators appear to be on the cusp of a historic deal with the Iranian regime. Whether that deal is a historic accomplishment or a historic error, however, depends on whether it durably ensures that Iran is prevented from acquiring nuclear weapons and advances our interests in the region broadly, or whether it leaves the region less stable, our allies less confident in our resolve, and Iran with sufficient residual nuclear capacity to develop nuclear weapons in the near future.

Status of Commitments Under the "Joint Plan of Action"

On the surface, the interim agreement or "Joint Plan of Action" (JPOA) between Iran and the P5+1 has largely performed as advertised.

- On July 20, the International Atomic Energy Agency reported that Iran has met its commitments under the JPOA.
- The Obama Administration has reported that the sanctions relief provided to Iran has remained at or under its initial estimate of $6-7 billion.

However, some questions exist about both claims.

- The Bipartisan Policy Center reported that Iran has managed to increase the efficiency of its installed IR-1 centrifuges by twenty-five percent in the last six months.
- The Foundation for Defense of Democracies and Roubini Global Economics have placed the value of direct sanctions relief at $11 billion if condensate exports – not covered by sanctions – are accounted for, and indirect relief at an even higher figure depending on what portion of Iran's increased economic growth is attributable to a rise in consumer and business confidence stemming from the JPOA and sanctions relief.
- Iranian oil exports have steadily risen since the signing of the JPOA; they averaged 1.25 – 1.3 million barrels per day over the first six months of 2014 and currently stand at 1.4 million barrels per day.
- Much of this rise is attributable to an increase in Chinese oil imports from Iran, which averaged 627,742 barrels per day during the first six months of 2014, up forty-eight percent from the same period last year. This significant increase has not drawn a response from the United States as far as I am aware.
- It is important to note that even though oil export revenue is higher than anticipated, that revenue remains difficult for Iran to access due to the requirement it be placed in escrow.

It is important to bear in mind, however, that the JPOA did not address all of Iran's nuclear activities.

- The JPOA provided for a halt in the progress in certain activities, along with a reduction in Iran's level of enrichment and stockpile of twenty-percent-enriched uranium, but it allowed other nuclear activities to continue apace.
- The agreement did not address two of the three elements of Iran's nuclear program – ballistic missiles and weaponization research (or "possible military dimensions" or PMD).
- Missiles have not been addressed at all, whereas the question of weaponization has been left with the IAEA, which has reported a disappointing lack of progress even as Iran has

continued to deny inspectors access to the Parchin site while engaging in work there likely designed to obscure its past activities.

- Even the one element of Iran's nuclear effort addressed by the JPOA – fuel fabrication – was dealt with only partially, as Iran continues to stockpile more than enough enriched uranium for a nuclear weapon and to develop advanced centrifuges that if installed would reduce its breakout time further.

The JPOA "timeout" applied not only to Iranian nuclear progress, but also to Western economic pressure, the momentum of which had been building.

- For Iran, the JPOA provided a reprieve from what had been steadily mounting economic pressure. Per a study by my colleague Dr. Patrick Clawson at the Washington Institute for Near East Policy, Tehran for its part has used the "time and space" provided by the JPOA to make key macroeconomic adjustments – spending cuts, exchange rate adjustment, a tightening of monetary policy – to stabilize its economy.
- Clawson's study finds that these adjustments have decreased Iran's rate of inflation from over 40% in early 2013 to 17% today, and have put the country on track to achieve 1.5% GDP growth this year and 2.3% per year thereafter, even without sanctions relief.
- As such, Iran's current oil exports would easily provide sufficient foreign exchange to balance its current account were it able to access that revenue.

At a deeper level, the JPOA represented a significant diplomatic advance for Iran. In exchange for easily reversible and explicitly temporary pauses to selected nuclear activities, Iran obtained concessions from the United States which it had sought since the beginning of this diplomatic process in 2003.

- The United States implicitly renounced the requirement – enshrined in multiple UN Security Council resolutions whose legitimacy Iran had denounced – that Iran suspend enrichment, reprocessing, and heavy water-related activities, and gained American acknowledgement that Iran would continue to enrich uranium indefinitely.
- Furthermore, it secured legitimacy for its facilities at Natanz and Arak, which had been constructed secretly and in violation of Iran's Nonproliferation Treaty obligations.
- Finally, it established that any limitations on Iranian nuclear activities – short of the actual construction of a nuclear weapon - would be temporary.

<u>Progress of Negotiations Under the JPOA</u>

The JPOA represented a shift in the underlying negotiating framework from addressing Iran's violations to addressing its purported "practical needs" for nuclear fuel cycle activities.

- Previously the UN Security Council had required that Iran suspend all such activities, leaving open the question of whether and when they would be permitted to resume.
- This position was reversed by Obama Administration officials, who termed it "maximalist" or, in the words of then-Senator John Kerry in 2009, "ridiculous."
- Yet it was neither – the P5+1 had been prepared to offer Iran not only sanctions relief but a long list of other incentives in exchange for Iranian agreement to halt its nuclear activities. In other words, we offered Iran something which it needed desperately in exchange for something it did not, if its claims to eschew nuclear weapons are true.
- For Tehran to have turned down this offer – as well as more recent offers conceding significant fuel cycle activities - suggests that it values those activities more than economic relief, which is hardly a sensible position for a country blessed with abundant fossil fuel reserves, and which in any event has been offered the opportunity to obtain nuclear fuel through import like nearly every other country with nuclear power.
- It is this Iranian position – not the P5+1 requirement that Iran suspend fuel cycle activities – that is unreasonable. Yet by not challenging it, we have found ourselves tactically on our heels.
- Having won this ground, Iran staked out a truly maximalist position – that it required not just the 19,000 centrifuges it possessed as the talks began, but an additional 100,000 centrifuges or more.
- As a result, it is able to portray, however cynically, its most recent offer to simply maintain its current centrifuge stocks in exchange for sanctions relief as a significant compromise.

Since its signing, there have been few signs that the JPOA is leading to an agreement that will advance American interests.

- The United States has significantly reduced its longstanding demands of Iran. In addition to the major concessions made merely to obtain the JPOA, the United States reportedly made others, including that Iran's Arak research reactor could remain a plutonium-producing heavy water reactor, albeit with modifications, and that the Fordow enrichment facility need not be closed.
- In addition, there are few signs that weaponization research or missiles will be specifically addressed in a deal.
- The major constraints on Iran in a deal will likely be on its number and type of centrifuges, its level of uranium enrichment and plutonium production, and the size and composition of its enriched uranium stockpile. Iran will also be required to accept enhanced inspections.

- These are important issues, to be sure, but the restrictions will in any event be temporary. There is as yet no indication that Iran will be required to dismantle or ship out any part of its nuclear infrastructure.
- Thus, an agreement will neither be comprehensive – even with respect to nuclear issues – nor final, but will likely permit Iran greater nuclear activities than it conducts under the JPOA.
- Rather than requiring that Iran dismantle its nuclear program in exchange for the dismantling of sanctions, we are seemingly poised to alleviate the pressure on Iran in exchange for its promise to temporarily halt the expansion of the program it has already built in defiance of its international obligations.

Successful negotiation depends not just on how each party values a particular deal, but whether it deems the alternatives to a negotiated agreement as better or worse for its interests. We have not persuaded Tehran that the alternative to a deal would be damaging to Iranian interests.

- Iran likely perceives that the two most threatened alternatives to a diplomatic settlement – additional sanctions or a military strike – have become less threatening since the signing of the JPOA.
- Persuading oil importers such as China – whose oil imports from Iran, as I have already noted, have been rising during the past six months despite sanctions without attracting any American response – would be difficult absent a clear demonstration of US will, especially if Iran does not significantly ramp up its nuclear activities upon the collapse of talks.
- American military credibility, already undermined by our failure to enforce the President's declared red line on Syria, has suffered further as we have greeted crises in Iraq, Ukraine, and the South China Sea with paralyzed indecision.

In sum, the United States begins the next four months of talks at a significant disadvantage.

- Iran has already extracted valuable concessions from the P5+1, which Tehran will seek to pocket and establish as a new baseline for any future diplomacy.
- Even as the value to Iran of a diplomatic settlement has declined, the prospect and cost of the threatened alternatives have as well, reducing Iran's incentive to accept even generous offers.
- Those generous offers might be warranted were there evidence that Iran were undergoing the sort of "strategic shift" we have long sought; but Iran's support for terrorism, destabilizing regional activities, and anti-American vitriol continue unabated.
- In this context, a narrow deal that leaves Iran with significant residual nuclear weapons capability would set back American interests rather than advance them.

- The urgent task before American policymakers, if they are to achieve a worthwhile diplomatic solution to the Iran nuclear crisis, is to alter this equation.

The Way Ahead

The fundamental bargain between the United States and Iran should be dismantling for dismantling – Iran dismantles its illicit nuclear infrastructure in exchange for the dismantling of nuclear sanctions.

- The US should remain prepared to accept a civilian nuclear power program in Iran, but one which depends on imported fuel; the US should not accept indigenous fuel cycle activities in Iran until it has established its peaceful intent.
- Congress should insist that nuclear facilities built in violation of Iran's NPT obligations be dismantled; this is important not only for regional stability, but for the integrity of the nonproliferation regime globally.
- Iran will portray these terms as overly harsh, but in fact they impose no hardship on Iran's economy or its people; On the contrary, Iran would enjoy a civilian nuclear program that operates similarly to those in many other countries, including the United States, and much-needed economic relief.

The alternative – permitting Iran a large nuclear infrastructure – strikes me as imprudent and unlikely to succeed in the face of Iranian determination to advance its nuclear weapons capability.

- The success of any deal which leaves Iran with a large residual nuclear capability would depend first on the extent and intrusiveness of inspections.
- Yet those inspections will be hampered by the size of Iran's nuclear program, its refusal thus far to come clean on past nuclear activities and thus provide inspectors with a "roadmap," and by hesitancy to grant inspectors access to military facilities such as Parchin, which are likely as vital to Iranian nuclear efforts as declared civilian facilities.
- Those same factors would decrease the likelihood of detecting covert nuclear facilities, which is important given that the Intelligence Community judges that Iran is likely to use such facilities, not its declared sites, if it chooses to make a nuclear weapon.
- The success of a deal would further depend on whether the consequences for Iran of cheating are sufficiently severe, which in turn depends on our and our allies' willingness and ability to enforce the deal.
- Because re-imposing sanctions could be a slow and uncertain process, in the event of Iranian cheating Washington would likely be left with an unpalatable choice between mere diplomatic reprimands and military action. It is important that we act prudently now to avoid finding ourselves in such a corner in the future.

A deal of this sort would have potentially negative implications for US interests in the Middle East and beyond.

- It would embolden and enrich a regime which has demonstrated a willingness to support virtually any group or cause which is opposed to US interests.
- It would lend credence to Iranian efforts to portray the United States as irresolute and unreliable, and to call into question the legitimacy of the UN Security Council.
- It could lead US allies in the region to seek to match Iranian nuclear capabilities, and to counter Iranian activities in the region without coordinating with the United States.
- Finally, it would undermine US efforts to limit the spread of enrichment and reprocessing technologies globally, which are inherently dual-use in nature.

Thus the sort of deal the P5+1 has offered – permitting Iran a bounded residual nuclear capacity in exchange for enhanced inspections – should only be contemplated if we see evidence that Iran is undertaking a broader strategic shift.

- While offering no guarantee of success, evidence of such a shift would provide confidence that Iran would be committed to upholding a deal rather than determined to evade its constraints or exploit its loopholes.
- Examples of such evidence would be willingness by Iran to come clean on its past nuclear activities, and to curtail destabilizing activities such as support for terrorism and the provision of arms to proxy militias.
- Such steps should be considered as conditions for any final sanctions relief. This would also hold benefits for Iran, as it would hold out the prospect of normalized relations with the international community and the lifting not just of nuclear sanctions, but sanctions more broadly.
- Given that these issues are unlikely to be addressed in the current negotiations, and the importance of seeing evidence that Iran is complying with an agreement before irreversibly alleviating pressure, any sanctions relief should be back-loaded.

Success in the negotiations depends on more than just the content of our offers – it depends on increasing the credibility of our threatened alternatives to an agreement. If Iran's alternatives look worse, it is more likely to accept a negotiated agreement.

- The threat of sanctions can be made more credible via a unified message from the White House and Congress that pressure will be increased if talks do not succeed by November 24;
- Sanctions can also be strengthened by responding with greater alacrity to the increase in Iranian oil exports.

- Our military credibility can be enhanced by making clear our continuing commitment to the Middle East through messaging – particularly by making clear that the "rebalance" to Asia and our pursuit of energy "independence" do not portend a retreat from the region - and backing up that commitment with adequate military and diplomatic resources and by seeking to strengthen our seriously weakened alliance system in the region;
- Our military credibility can also be strengthened by responding more vigorously to other threats to regional stability, particularly in Iraq and Syria, and by taking additional steps to counter destabilizing Iranian policies, particularly its provision of arms to groups such as Hezbollah, Hamas, and Palestinian Islamic Jihad.
- Finally, Congress and the Administration should jointly ensure that, whether or not a deal is reached with Iran, we continue to devote adequate intelligence and diplomatic resources to monitoring and responding to Iranian activities; we cannot afford to shift those resources elsewhere in the belief that, in the wake of a deal, we can move on to other problems.

Achieving a nuclear agreement that adequately secures our interests and those of our allies will be difficult and require patience, and taking steps to reassert our commitment to the Middle East, reassure allies, and deter Iran will require effort and resources when other crises around the world are competing for both. But these two broad lines of action can be mutually reinforcing—Iran is more likely to accept and adhere to a stringent nuclear accord if it perceives that the US is willing to hold out at the negotiating table and is not looking for a quick exit from the region, and any adverse regional consequences of an agreement may be less if it is perceived to reflect American resolve rather than diffidence. To state that "no deal is better than a bad deal" is only meaningful given some yardstick for what makes a deal "good" or "bad;" for the United States, that yardstick must be the extent to which a deal advances our—and our allies'—strategic interests in the Middle East and beyond.