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The Impact of Sanctions Relief on Iran

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RAND Office of External Affairs

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The Impact of Sanctions Relief on Iran²

**Before the Committee on Oversight and Government Reform
Subcommittee on National Security
United States House of Representatives**

November 5, 2015

Chairman DeSantis, Ranking Member Lynch, and members of the subcommittee, thank you for inviting me to appear before you today to speak about the impact of sanctions relief on the Iranian regime's policies at home and in the Middle East.

The Joint Comprehensive Plan of Action (JCPOA) nuclear agreement between Iran and the P5+1 (China, France, Russia, the United Kingdom, the United States, and Germany) will no doubt provide Iran with significant sanctions relief and alleviate some of the stresses faced by the Iranian economy, but several factors will constrain the Iranian regime's ability to substantially grow the economy and use newly found resources to achieve its foreign policy objectives. My testimony today will review these constraining factors and provide several recommendations for U.S. policymakers to consider.

First, sanctions relief will not be granted unless Iran implements the JCPOA by sharply reducing its nuclear capabilities. This means that Iran will be unable to use its nuclear program to expand its influence in the region. Iran will only be rewarded economically once it has met its obligations under JCPOA, which include reconfiguring the Arak nuclear facility, sharply cutting the number of operating centrifuges, reducing Iran's stockpile of enriched uranium, and accepting intrusive inspections of Iran's nuclear facilities. Second, while the United States will lift secondary sanctions against Iran, primary American sanctions targeting the Iranian regime's support for terrorism and its human rights abuses will remain, preventing Iran from gaining access to American capital, and—most importantly—American technology and know-how. The European Union is expected to lift most of its nuclear-related sanctions against Iran once Tehran complies with JCPOA. However, European sanctions on other issues such as human rights will remain.

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Although the JCPOA is expected to provide Iran with significant economic relief, the amounts involved are unlikely to greatly empower the Iranian regime at home or abroad. The Iranian regime is massively indebted due to its costly nuclear policies; it owes as much as \$100 billion to Iranian banks and private firms. The Rouhani government was elected on a campaign to improve the economy, which will require Iran to spend at least \$200 billion on its dilapidated energy sector, in addition to tens of billions of dollars on domestic infrastructure, health care, and the educational system. The Iranian people have high expectations from their government and they are waiting anxiously to see the benefits of sanctions relief. So while the lifting of U.S. secondary and European nuclear sanctions may enable Iran to increase its oil exports by around 1 million barrels per day and give it access to \$50–100 billion held in escrow accounts, much of this money will be used to pay debts and invest in the country's infrastructure and social services.

In addition, because global oil prices are likely to remain low for the foreseeable future, oil exports will not enable Iran to get rich quickly. Iran faces stiff global competition, and its reentry into the global market is unlikely to pose serious competition to major oil producers, such as Saudi Arabia and the Gulf Cooperation Council (GCC) states. Iran is eager to exploit its massive natural gas resources, but it is years—if not decades—behind such major producers as Qatar, which enjoys a close relationship with the United States and has been able to become an energy powerhouse through technologies such as liquefied natural gas.

Even after the JCPOA, many foreign companies will be hesitant to trade with Iran due to remaining U.S. sanctions and, perhaps more importantly, due to the overall reputation of the Iranian regime. Many firms will avoid making capital investments in Iran out of fear that disputes over the JCPOA's implementation will lead to the reimposition of sanctions. The resulting uncertainty will slow the rate at which Iran sees economic returns from the nuclear deal.

Iran is one of the most corrupt and least business friendly countries in the world. The Iranian government's chronic mismanagement of the economy, endemic inflation, unemployment, and societal repression will continue to plague the economy well into the future. The role of the Revolutionary Guards in the Iranian economy, in addition to other government actors, will ensure a long-term degree of caution on the part of foreign investors. Many of the Guards are opposed to the opening of Iran's economy, fearing that the government of President Hassan Rouhani intends to use a more open and globalized economy to curtail their economic and political authority. The Guards' detention and harassment of Iranian-American businesspeople is an indication of their reluctance to embrace a new economic era. The Rouhani government's inability or unwillingness

to protect those who want change in Iran will surely restrain the benefits of sanctions relief for the Iranian regime, and unfortunately for the Iranian people.

The JCPOA is a strong non-proliferation agreement. However, it does not address all of the United States' problems with the Iranian regime. Nor should it do so. The JCPOA is a pragmatic solution to stopping the Iranian regime's pursuit of a nuclear weapons capability. By ensuring that Iran does not pose a nuclear danger to the United States and its regional allies, it can be a first step in allowing the United States to contain and roll back Iran's regional influence through military, diplomatic, and economic means. The Iranian regime will remain a challenge on many fronts once the JCPOA has been implemented, but the United States has the means to mitigate these challenges.

U.S. and allied military superiority will deter Iran's conventional military capabilities even as Iran regains some of the resources necessary to improve its military. Iran's deteriorating economy has meant a decline in Iran's military capabilities as well. The GCC states spend more than ten times as much on their defense capabilities as Iran does. According to General David Petraeus, the United Arab Emirates air force "could take out the entire Iranian Air Force, I believe, given that it's got . . . somewhere around 70 Block 60 F-16 fighters, which are better than the U.S. F-16 fighters." And Iran will face an arms embargo for eight years after the JCPOA has been implemented.

The Iranian regime's asymmetric capabilities will remain the key challenge for U.S. interests; but increasing U.S. military leverage in Syria and Iraq, a political solution to the Syrian conflict, and the defeat of the Islamic State of Iraq and the Levant on the battlefield will decrease the regional instability which the Iranian regime exploits consistently.

This means that the United States should be willing to engage Iran diplomatically when it suits its own interests. Diplomacy with Iran is not a sign of weakness, but of strength. The JCPOA was achieved due to Washington's ability to create and sustain an international coalition to enforce sanctions against the Iranian regime. The United States could only persuade the world that it was willing to resolve the nuclear issue by engaging Iran directly. Multilateral diplomacy that includes Iran can similarly help the United States in resolving the Syrian conflict.

The Iranian regime appears ascendant in Syria today, as evidenced by the presence of a reported 2,000 Revolutionary Guards fighting on behalf of the Syrian regime. Iran also appears to have coordinated its expanding military campaign with Russia, giving the Assad regime a potential military boost before the resumption of diplomatic negotiations. However, the mounting

economic cost of supporting the Assad regime and the increasing deaths of Iranian generals and soldiers is sparking a debate within Iran and leading more Iranians to question their government's actions. The Iranian regime is more eager to end its involvement in the Syrian conflict than it may appear.

Of course, Tehran is eager to protect its own interests in Syria, and is unlikely to curtail its military support for Assad until it has met some of its objectives, including the preservation of Iranian influence in Syria and Lebanon. However, there is no military solution to the Syrian conflict for Iran, Russia, the United States, and its Arab partners. A political solution means flexibility from all sides, as was the case with the negotiations leading to the JCPOA. Greater U.S. military leverage in Syria through increased support for moderate anti-Assad insurgent groups can mean greater U.S. diplomatic leverage on the negotiation table.

The JCPOA will not end the rivalry between the United States and the Islamic Republic. Iran's regime is still largely revolutionary in character. The election of Rouhani has meant a more pragmatic Iranian foreign policy on certain issues, including the nuclear program and possibly the Syrian conflict. However, Iran's senior leadership, including Supreme Leader Ayatollah Ali Khamenei, remain committed to enmity with the United States. Khamenei may have approved of the nuclear agreement and may support multilateral negotiations with Syria involving the United States, but his fundamental view of America has not changed.

Nevertheless, there is a future for Iran beyond Khamenei and the Islamic Republic. Iran's population is relatively young, worldly, and eager to engage the international community. The Iranian regime's decision to sign the JCPOA is in part due to pressures it faced from Iranians who revolted against the regime's corruption and repression in 2009. There are no indications that Iran will face a mass insurgency or revolution in the near future, but the voice of the Iranian people matters; many have supported the JCPOA not just for the economic relief, but in the hope of a brighter future.

The United States should be open to engaging the Rouhani government on various issues, but the real hope for better U.S.-Iran relations lies in a more democratic and open Iran. Rouhani's government has demonstrated its desire for a more open economy, but it has taken little to no action to challenge Iran's repressive political system. The Iranian regime's human rights abuses remain as horrible as before Rouhani's election, if not even worse; a recent report by the United Nations noted a record number of executions in Iran, among other human rights abuses against women and religious and sexual minorities.

The regime has imprisoned hundreds, if not thousands, of Iranians who have expressed a desire for a more democratic and pluralistic political system. In addition, five Americans remain in Iranian jails or unaccounted for: Jason Rezaian, Amir Hekmati, Saeed Abedini, Robert Levinson, and the recently arrested Siamak Namazi. As Iran implements the JCPOA, it remains essential that the United States seek the release of U.S. citizens unjustly jailed by the Iranian regime.

The jailing of Iranian-Americans is an indicator that the JCPOA and sanctions relief will not lead to a dramatic transformation of Iran or its relations with the United States. However, the JCPOA is a first step in the right direction. Not only does it stop Iran's nuclear weapons capability, but it also gives Iranians a chance to change their future. The taboo of U.S.-Iran engagement has been broken. The Iranian regime can no longer convincingly blame the United States for all of Iran's problems, which makes it accountable, alone, for the country's success or failure.

U.S. efforts to strengthen Iranian civil society by promoting democracy could help lead to a more open and humane Iran but, ultimately, only the people of Iran can change their country. Engaging the Iranian regime through the JCPOA and other diplomatic initiatives does not confer legitimacy upon the Islamic Republic, nor does it mean that the United States will ignore Iran's aggressive regional policies or its abuses at home. The JCPOA is a pragmatic necessity, but much work remains to be done in containing, deterring, and rolling back the Iranian regime.

U.S. Policy Recommendations

Congress has a vital role to play in ensuring Iran's adherence to the JCPOA by engaging in vigorous oversight of the JCPOA's implementation. Congress should be ready to impose new sanctions against Iran—if it is found to be violating the agreement. Moreover, Congress should remain fully informed of the status of the JCPOA by holding frequent hearings—both unclassified and classified—regarding its implementation.

However, Congress should not pass new legislation on terrorism and human rights abuses, especially as the JCPOA is implemented. Such steps could be viewed by U.S. partners and the international community as an attempt to undermine the JCPOA, endangering the international consensus on the nuclear accord and enforcement of sanctions against Iran. Existing sanctions against Iran will be sufficient to limit its regional objectives; particular events, such as Iran's expanding influence in Syria, may be a tempting reason for additional sanctions, but these would only undermine the JCPOA and U.S. attempts to resolve the Syrian conflict.

A focus on democracy promotion would be beneficial in the long term. The United States should adopt policies that promote a stronger Iranian civil society. The United States should make it easier for Iranian students to study at American universities, allowing them to gain an even more positive view of the United States and its values. U.S. programs that aim to increase cultural, religious, and sports exchanges between Iran and the United States should be expanded.

Remaining U.S. sanctions against Iran allow the export of certain telecommunication software and hardware. Congress should continue to encourage access to communication tools for ordinary Iranians, as freer access to information will expose the country to new ideas and encourage Iranian citizens to pressure the regime to allow greater personal and political freedoms. Congress should also support a mechanism for direct banking links with Iran. Such a channel could also be used to expand the export of food and medicine to Iran, as well as facilitate personal and family remittances in a more transparent manner.

The United States should stop viewing diplomacy with Iran as a disadvantageous policy or an expression of weakness. U.S. diplomacy with Iran can help resolve regional crises while strengthening positive views of America within Iran. Therefore, the United States should lift restrictions against diplomatic engagement with Iranian diplomats. U.S. diplomacy with Iran does not confer legitimacy on the Iranian regime; such legitimacy can only be conferred by the Iranian people.

Thank you for the opportunity to share my views with the subcommittee. I look forward to your questions.