

# Remarks of Treasury Secretary Jacob J. Lew to The Washington Institute

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## ABOUT THE AUTHORS



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Jacob J. Lew is the 76th secretary of the United States Treasury.



## In-Depth Reports

**O**n April 29, 2015, Secretary of the Treasury Jacob J. Lew addressed a gala dinner marking the Institute's 30th anniversary. The event took place at the Smithsonian Institution's National Museum of American History. Following are Secretary Lew's prepared remarks.

I would like to thank my dear friend Barbi Weinberg for that kind introduction, and thank you Rob, Marty, Richard, Dennis, and the Board for inviting me to join in this celebration. It is wonderful to be back with the Washington Institute, among so many longtime friends.

I would first like to wish you all the warmest congratulations on reaching this tremendous milestone. For thirty years, the Washington Institute has done so much to advance our nation's understanding of the Middle East, a region that brings out the deepest of emotions and always seems to be undergoing some sort of major transition. So today, the service that the Institute provides — a steady stream of analytic, policy-relevant, and insightful scholarship — is more important than ever.

Tonight I want to speak about an issue that I know is on everyone's mind, and that is our ongoing efforts to make sure that Iran never obtains a nuclear weapon. Specifically, I would like to discuss why the framework agreement we recently reached with our P5+1 partners and Iran offers the best chance of achieving that objective. You will hear more broadly from the Vice President tomorrow, but I will describe how my team at the Treasury Department is prepared, if we are able to conclude a comprehensive agreement in the next several months, to help ensure that Iran complies with the terms of the agreement.

But first, how did we get to this point? At the outset of this Administration, President Obama made clear that preventing Iran from acquiring a nuclear weapon was a national security priority of the highest order. We knew then, as now, that an Iran in possession of a nuclear weapon would directly threaten our security and that of our closest allies, increase the chance of nuclear terrorism, and risk setting off an arms race in the Middle East. So we resolved to do whatever it would take to make sure that Iran will never get a nuclear weapon.

For us at Treasury, that meant working together with Congress, Departments across the executive branch, and our international partners to establish the most effective, comprehensive, and innovative program of economic sanctions in history.

At first, there were many out there who said a sanctions regime would not work. That the United States — which had a near-total embargo on Iran for over a decade — had exhausted its sanctions tools. That countries like China and India would never agree to dramatically scale back their oil purchases.

Those assessments were wrong. Sanctions isolated Iran from the international financial system, slashed its oil exports by more than half, deprived it of access to much of its oil revenues and foreign reserves, and severely constrained its overall economy.

But the goal of sanctions was never to create pressure for its own sake. Sanctions were always intended principally as a means, through economic pressure, to persuade Iran to come to the negotiating table to engage in serious diplomacy over its nuclear program. And that is exactly what happened.

In November 2013, we reached an interim agreement to freeze and even roll back Iran's nuclear program while negotiations on a longer term agreement were underway. Many critics suggested that this interim agreement, the Joint Plan of Action, would free Iran from the pressure of sanctions and ultimately pave the way for an Iranian nuclear weapon. But throughout the JPOA, we have ensured that Iran abided by its commitments. Its nuclear program has remained frozen, certain aspects of the program were curtailed, and we have gained unprecedented insight into Iran's nuclear activities. That gave us the space we needed to engage in talks knowing that Iran was not simply biding time and creeping toward a nuclear weapon under diplomatic cover.

Which brings us to today. The framework understanding reached several weeks ago in Switzerland is the basis of a good deal. If we are able to conclude a final agreement consistent with the framework, it will make our country safer, it will make our allies safer, and it will make the world safer.

That's because it meets our core objectives: cutting off every pathway that Iran could take to develop a nuclear weapon and providing for the most robust and intrusive inspections regime ever placed on a country's nuclear program. In return, after Iran takes the required steps to cut off these pathways, the international community is prepared to provide Iran with relief from a defined set of nuclear-related sanctions.

Let me be absolutely clear: A comprehensive deal with Iran would not be based on trust. It would be based on intense verification and scrutiny — as well as the knowledge that if Iran does not keep its word, we have preserved all our options, including economic and military tools, to make sure that Iran can never acquire a nuclear weapon. We now have several months of tough diplomacy ahead of us, during which we hope to iron out all the technical details required to implement an agreement.

If Iran takes the steps to shut down the paths to a nuclear weapon, the framework provides sanctions relief. I would like to spend a few minutes discussing in detail how we think about sanctions relief and how it will work if we reach a comprehensive deal.

When we began thinking about the idea of a nuclear agreement with Iran, we knew full well that we needed an

approach to winding down sanctions that accounted for the possibility that Iran might cheat. Historically, Iran had told the international community one thing, while doing something very different. We had two overarching conditions for any future sanctions relief.

First, that the relief would have to be carried out in phases, to match verified, agreed-upon steps on Iran's part. It would be unacceptable for us to lift the sanctions on Iran on the day it agrees to a comprehensive deal, since continued pressure from sanctions is the best way to ensure that Iran actually lives up to its commitments. And second, we need to make sure that if Iran violates any of those commitments, there will be a mechanism to snap sanctions back into place and reverse the relief.

The framework agreement meets our requirements in both respects, and if we can get a comprehensive deal, here's how it will work.

Iran will receive relief from UN, EU, and U.S. sanctions only after it verifiably completes major nuclear-related steps, ensuring that it is at least one year away from having enough fissile material to produce a nuclear weapon.

That means reducing installed centrifuges at Natanz and Fordow by two thirds and ceasing all enrichment at Fordow. That means rebuilding and redesigning the heavy water research reactor at Arak such that it cannot produce weapons-grade plutonium. That means reducing its stockpile of low-enriched uranium from around 10,000 kilograms to 300 kilograms. Every step of Iran's nuclear supply chain, from mining to enrichment, would be subject to intrusive inspection, so we will know if the Iranians are keeping their word.

If Iran takes those steps — and we can confirm that the work is complete — it will represent far-reaching movement, and it will extend Iran's breakout time from about three months to a least a year. In exchange for taking these steps, we would be prepared to provide sanctions relief, including suspending oil, trade, and banking sanctions. And while we would provide this relief by using the President's authority to waive sanctions, the authority to reimpose sanctions would remain in place. Only after many years of compliance would we ask Congress to vote to terminate sanctions, and only Congress can terminate legislative sanctions.

Keeping the sanctions architecture in place while providing relief through waivers also furthers our second condition, which is to preserve our ability to reimpose sanctions if Iran reneges on its commitments. By ensuring that sanctions can be quickly snapped back if Iran cheats, we will retain important leverage over Iran for years after an agreement is reached.

Crucially, this approach to sanctions relief and snapback is not just a U.S. position. Our international partners are united in the view that we must be able to reimpose multilateral sanctions on Iran if it breaches the restrictions on its nuclear program. We are still developing the exact mechanisms by which sanctions stemming from UN Security Council Resolutions would be re-imposed. But we have made it abundantly clear that if Iran breaks its commitment, it will face once again the full force of the multilateral sanctions regime. The snapback would not be vulnerable to a veto by an individual P5 member, including China and Russia.

I've spoken in some detail about what relief from the sanctions will mean for Iran. But before closing I would like to spend a few minutes on what the relief will not mean.

Many Americans, and many of our closest allies, are understandably concerned that Iran will use the money it

receives as a result of sanctions relief to fund terrorism and support destabilizing proxies throughout the Middle East. We share those concerns, and we are committed to maintaining sanctions that address these activities, even after Iran takes the steps required to get relief from nuclear sanctions. But it's important to note that the connection between nuclear sanctions relief and Iran's other malign activities is complicated, and most of the money Iran receives from sanctions relief will not be used to support those activities.

Even before oil prices fell, punishing sanctions put Iran's economy in a very deep hole. President Rouhani was elected on a platform of economic revitalization, and Iranians are demanding proof that engagement with the international community will produce tangible economic benefits. The scale of Iran's domestic investment needs is estimated to be at least half a trillion dollars, which far outstrips the benefit of sanctions relief. As a result, Iran is expected to use new revenues chiefly to address those needs, including by shoring up its budget, building infrastructure, maintaining the stability of the rial, and attracting imports.

The bottom line is that as a result of our sanctions, Iran will be playing catch up for a long time to come. Think about the following indicators:

- Our sanctions have cost Iran over \$160 billion in oil revenues since 2012 – revenues Iran can never recoup. And even if Iran were able to quickly double its current oil exports – a big if given how low oil prices are today and how much improvement Iran's infrastructure needs to produce at this level – it would take more than three years for Iran to earn that much money, and that would not come close to regaining lost economic activity.
- Iran's GDP shrank by 9 percent in the two years ending in March 2014, and it is today 15 to 20 percent smaller than it would have been had it remained on its pre-2012 growth trajectory. It will take years for Iran to build back up the level of economic activity it would be at now had sanctions never been put in place.

So Iran will be under enormous pressure to use previously blocked resources to improve its domestic economy.

Unfortunately, the cost of Iran's support for terrorism and regional interventions is relatively small. Those activities have continued over the last several years, even while Iran's domestic economy has suffered badly. We are under no illusions that Iran will all of a sudden stop providing significant support to dangerous actors like Hizballah and the Assad regime – and so we will remain vigilant in our efforts to combat those activities.

Make no mistake: deal or no deal, we will continue to use all our available tools, including sanctions, to counter Iran's menacing behavior. Iran knows that our host of sanctions focused on its support for terrorism and its violations of human rights are not, and have never been, up for discussion. The Treasury Department's designations of Iranian-backed terrorist groups and the Iranian entities that support them, most notably the IRGC-Qods Force, will persist, giving us a powerful tool to go after Iran's attempts to fund terror.

As the President made clear when he announced the framework, "our work is not yet done." Over the course of the next two months, our negotiators will continue to refine the details of how we implement a comprehensive agreement. We are determined to guard against backsliding by the Iranians. And we will only reach a final agreement if our technical experts are confident in the mechanisms both for inspections and for the possible reimposition of sanctions.

The President remains committed to only reaching an agreement if it is a good one. But a diplomatic resolution would be by far the most effective and most enduring way to address this grave threat. Apart from the broad costs and risks associated with taking military action against Iran, we should not take too much comfort in how long a

military strike would slow down Iran's nuclear ambitions. The estimates range, but almost all experts agree that a military strike would result in Iran doubling down and speeding up its nuclear program. And we would go from full visibility to no visibility, severely limiting our ability to see or stop nuclear progress.

I want to close by once again acknowledging how important the work that you all do is. In 1985, when a small group of women and men represented here tonight got together to found this organization, nobody could have predicted exactly what the Middle East would look like today. But you understood that this region of the world would remain absolutely vital to U.S. strategy and that American leaders would continue to need clear analysis and sound advice to navigate through its many challenges.

The United States remains committed to working with the people of the Middle East to build a better future, defined by peace and security. And we are as committed as ever to defending our nation's core interests in the region. To do so effectively, we need bold ideas and sharp analysis. And for that, we will continue to turn to the Washington Institute for analysis and advice that is still so vital to think clearly about the policy choices that lie ahead.

Congratulations on 30 years of important work, and for the ongoing work that you do. Thank you again for hosting me here tonight. ❖

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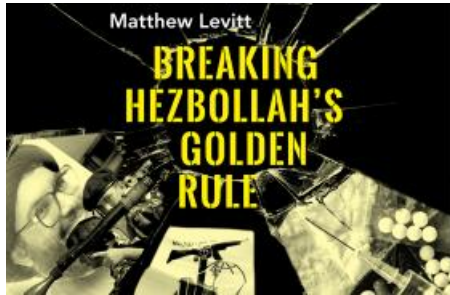
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