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ANNUAL THREAT ASSESSMENT HEARING

HEARING

BEFORE THE

PERMANENT SELECT COMMITTEE ON INTELLIGENCE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 25, 2009

U.S. GOVERNMENT PRINTING OFFICE

53–478 WASHINGTON : 2009

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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ANNUAL THREAT ASSESSMENT HEARING

WEDNESDAY, FEBRUARY 25, 2009

U.S. HOUSE OF REPRESENTATIVES,
PERMANENT SELECT COMMITTEE ON INTELLIGENCE,
Washington, DC.

The committee met, pursuant to call, at 9:02 a.m., in room 334, Cannon House Office Building, the Honorable Silvestre Reyes (chairman of the committee) presiding.

Present: Representatives Reyes, Hastings, Eshoo, Holt, Ruppersberger, Tierney, Thompson, Schakowsky, Langevin, Murphy, Schiff, Smith, Boren, Hoekstra, Gallegly, Thornberry, Rogers, Miller, Kline and Conaway.

The CHAIRMAN. Good morning. The committee will please come to order.

Today we convene the first public hearing of the House Permanent Select Committee on Intelligence for the 111th Congress. Before I welcome our new members, I want to remind everybody we are having this hearing today in what I call the home of Chairman Sonny Montgomery, someone that championed issues for America's veterans, someone that is highly regarded and revered not just in Congress but by veterans everywhere. So we are very appreciative to Chairman Filner for allowing us to borrow this great, historic hearing room here.

With that, I would like to extend a warm welcome to the new members of this committee: Mr. Smith, Mr. Boren, Mrs. Myrick, Mr. Miller, Mr. Kline, and Mr. Conaway. And I would also like to welcome back to our returning members from previous service with the committee. My Vice Chair, Mr. Hastings, welcome back; and Mr. Blunt as well.

Director Blair, welcome. This morning, we are pleased that you are here and happy to see you today. We also want to congratulate you on your recent confirmation and wish you well as you go forward under these difficult times that we are facing today as a Nation.

As the Nation's third Director of National Intelligence, you will be required to continue to refine the role of the DNI and advance the goals of the Intelligence Reform and Terrorism Prevention Act of 2004, while at the same time never losing sight of the threats to our national security. I think we often make reference that this will be much like flying a plane and building it at the same time. So we are definitely prepared to stand with you and support your efforts.

Before we get started, I also wanted to thank the Director for meeting with members of the committee yesterday in an informal

session. Feedback that I have gotten has been very positive, and we intend to do more of those meetings, being mindful and respectful of the challenge that you face and the time limitations that you have. But we deeply appreciate your willingness to do that.

There were a few things about our discussion yesterday that I personally found very encouraging.

First, I am pleased, Mr. Director, that you are looking carefully at the situation in Mexico and are in the process of determining whether we need to redouble our efforts in helping President Calderon and the Mexican government deal with threats posed by the drug cartels.

Second, I am encouraged that the administration is conducting a comprehensive review of our policy in Pakistan and Afghanistan.

Third, I was interested to hear your thoughts on dealing with the detainees at Guantanamo Bay. When discussion turned to what our options might be with respect to closing of Guantanamo Bay, I think it is important to remind everyone that the United States has been capable of detaining and holding terrorists on our soil for many, many years.

By way of examples, today, the U.S. prison system holds Ramzi Yousef, who is Khalid Sheik Mohammad's nephew and one of the planners of the first World Trade Center attack. He was captured in Pakistan, extradited to the United States, convicted, and he now sits in a U.S. jail.

The U.S. prison system also holds Omar Abdel Rahman, better known as the Blind Sheik, a participant also in the first World Trade Center attacks; as well as Zacarias Moussaoui, convicted of participating in the September 11 attacks, also in a U.S. prison. Ali Saleh Kahlah al-Marri, who has been labeled an enemy combatant by the Bush administration, has been securely held in a Navy brig.

Those are just some of the examples of terrorists that are being held in the United States.

Today, I am going to make a few general remarks and then address some specific areas of concern for our Nation.

This is the third Annual Threat Assessment that I have presided over as chairman of this committee, and we are in a unique position this year. Although the new administration is just over a month old, we have seen some major changes to some of the most controversial issues which impact the Intelligence Community.

President Obama's Executive orders on detention and interrogation policies and on Guantanamo Bay represent a significant departure from the previous administration's policies. I know that many of us have strong opinions on what should be done in these critical areas. My intention, though, is to give the President and his new appointees some space to work through these issues as they propose a way forward. However, I think we all recognize that we don't have an unlimited amount of time. So I hope that the executive branch will move quickly on these critical issues.

Director Blair, I am also hopeful that you and the new administration will bring about an improved interaction between the executive and legislative branches on intelligence matters. Too often in the past we have been left in the dark, or simply told things too late, or told only part of the story. You heard some of those comments yesterday in the informal session. I am truly optimistic that

you will bring positive change in this area as we see our way forward.

One thing that will not change in the new administration is the strong character and drive of the men and women of the Intelligence Community. I have traveled throughout the world, as we mentioned to you yesterday, and have met with our intelligence personnel and have consistently come away impressed by the level of their dedication, their skill, their commitment, and their bravery. I know, in talking with you, you intend to spend some time traveling and meeting these same men and women around the world that are doing such critical work for our Nation. I hope that as you meet with them you will deliver to them our message of gratitude, support, and encouragement.

In the coming months, we will also be asking you questions about funding and resource needs for the Intelligence Community. One of the principal functions of our committee is to ensure that the men and women working on the front lines have the tools that they need to combat terrorism and to protect our national security. We look to you for a frank assessment of what those needs may be.

With respect to the substance of the threats facing the United States, I will outline four very basic principles on which I hope we will all agree and will seek your comment on them. First, al-Qaeda remains a significant threat. Second, American security policy will, for years, continue to be driven by Iraq and Afghanistan. Third, while we will continue to focus on the hot spots around the globe, we simply cannot forget about growing threats from China, Russia, Iran, and about long-standing problems in Latin America and in Africa. Fourth, our Nation's cyber infrastructure remains vulnerable to attack. Our Intelligence Community must be deeply engaged as we respond to these threats.

On the subject of al-Qaeda, I think it is beyond dispute that the last few years have seen expansion of the influence of al-Qaeda and the Taliban in the Federally Administered Tribal areas of Pakistan, a region known as FATA. This simply, in my opinion, cannot continue. With the freedom to recruit, train, and plot new attacks from the FATA, new safe havens across the globe continue to grow and emerge. Of particular concern are the expanding al-Qaeda networks in the Sahel region of North Africa and the emerging and intensifying al-Qaeda presence in Yemen.

The fight against al Qaeda is not simply a matter of warfare. We have also got to make progress in countering the extremist ideology. This committee needs to know what has been done to counter the extremist message throughout the world. What threat do we face from radicalization in the homeland? What advances have our allies made in combating this threat? And, simply stated, what can we do better to address these threats worldwide?

With respect to the wars in Iraq and Afghanistan, our national interests will be tied to the outcome of these conflicts. Our children and grandchildren will pay the cost of these wars and will either reap the benefits or suffer the consequences of what we do here. The past 2 years have seen some success in Iraq, thanks to the heroic efforts of our military intelligence and diplomatic personnel. We are very grateful for all of their efforts.

At the same time, while significant progress has been made in Iraq, we are losing ground on the Taliban and insurgents in Afghanistan, who are now virtually indistinguishable from al-Qaeda. These terrorists, who have long found sanctuary in the border area between Afghanistan and Pakistan, not only directly threaten U.S. national security; they threaten our allies by insisting on spreading their violent and distorted interpretation of Islam.

So as we balance forces from Iraq to Afghanistan, how will we protect the gains in Iraq while stopping the slide in Afghanistan?

As I noted at the outset, while we maintain focused on al-Qaeda and on the wars in Iraq and Afghanistan, we have also got the rest of the world to worry about. We must continue to focus on the threats posed by state actors such as Iran and North Korea. As we have recently read in the open press, Iran placed its first domestically built satellite in orbit. But the same technology that can launch a satellite and put it in orbit is also useful for launching missiles.

Coupled with the possibility of Iran's nuclear ambitions, what is the Intelligence Community's assessment of this threat? What is the Community's assessment of Iran's openness to increased diplomacy and engagement with the United States? Similarly, what progress has been made in the efforts to disarm North Korea? And what more needs to be done in both these important and vital areas of the world?

Russia continues to pose challenges to our country. It has engaged in an aggressive foreign policy designed to provide an alternative to the United States and has positioned itself as a counter to U.S.-led international efforts. Through its military offensive in Georgia last summer, as well as its continuing intelligence efforts around the globe, Russia shows that it remains a threat to U.S. interests and our allies. Do we have, Director Blair, our intelligence resources adequately deployed to deal with this resurgence from Russia?

In the last Congress, I expressed my desire for the Intelligence Community to focus on areas that had long been neglected in favor of other high-priority issues. Latin America and Africa come to mind. We previously believed the threats from these regions to be much less urgent, but they continue to have the potential to seriously threaten core U.S. national and security interests and will continue to grow in scope and severity. The security of the United States is directly affected by events in these important places.

Like many people on the southwest border of the United States, I am specifically concerned about the increase in violence and drug trafficking coming from Mexico. How has President Calderon managed this issue, and how will it affect the security of the United States?

Colombia's long-term efforts to bring terrorism and narcotrafficking under control have had great success; yet Colombia continues to be the primary source of cocaine entering the United States. How can we help the Colombian government move forward?

Africa-based terrorist groups, such as al-Shabaab and al-Qa'ida have grown in influence and capability. How will we address these threats, especially when our resources are stretched so thin elsewhere?

Finally, a word about cyber security. It is only in the past couple of years that we have really begun to appreciate the threat to our cyber infrastructure. This is a problem of enormous proportions, and I want you to know that we intend to work with you to address this vital and important national security asset from an intelligence perspective.

There are a host of other concerns that I could address, such as the ongoing conflict in Israel, the threat of WMD proliferation, and the security impact of the global economic crisis. I will leave those subjects for the question period and conclude by reiterating my thanks to the brave men and women of our Nation's Intelligence Community. I want them to know that, as chairman of this committee, I am reminded on a daily basis of their sacrifices as I look for our work here to be worthy of their commitment and their efforts. I trust and hope that you will consider us your partners in this effort.

So I look forward to a productive hearing this morning and a productive Congress.

Now I would like to recognize our ranking member, Mr. Hoekstra, for any opening statement that he may wish to make.

Mr. HOEKSTRA. Thank you, Mr. Chairman.

Welcome, Director. It is good to have you here.

This is always a very interesting hearing. It is really one of the few opportunities where the American people have the opportunity to see and to hear from you a description of the wide range of threats that we face as a Nation and how we are organized to contain and defeat those threats.

We recognize that much of the information that we potentially could talk about is of a sensitive nature and that we will get into that in closed session. I would like to really just address three specific areas that I would be interested in hearing you talk about how you will deal with these.

One is what I perceive a lack of accountability in the Intelligence Community. I have been disappointed, sometimes appalled, by the attitude of certain people within the Intelligence Community who mistakenly believe that they are not accountable to anyone outside of the Intelligence Community. The shocking disdain for outside oversight was most recently displayed in one of the documents produced inside the Intelligence Community, the report that was produced by the Inspector General in the CIA on the Peru counternarcotics program.

According to this report, the CIA helped a foreign government shoot down an aircraft believed to be operated by drug smugglers. The report also found that the CIA did not follow proper procedures to protect innocent lives. The CIA's carelessness led to the death of Veronica Bowers and her infant daughter Charity, two American citizens who were my constituents. In fact, Veronica Bowers' parents are also the constituents of one of our new committee members, Mr. Miller from Florida.

The Inspector General also found that certain CIA employees misled and withheld information from the Justice Department, Congress, and the White House regarding the repeated lack of proper procedures in this program.

In short, CIA officers disregarded the rules. Their carelessness resulted in the death of innocent Americans; and they then tried to cover up their carelessness, including, perhaps, lying to Congress.

Congress hasn't been very well in following up on this, and I don't believe the Community has been either. We learned about the CIA Inspector General's report in November. It's February. It's almost March now. This committee has not had one hearing or one briefing on the IG report about the Bowers shoot-down, what happened after it. No investigations have been launched, no witnesses interviewed, no reports filed. Nothing.

Perhaps if those suspect flights in Peru involved banned steroids bound for professional baseball players, this Congress would have paid more attention. With all the attention generated by the steroids in baseball hearings, we finally see Major League players being investigated and perhaps going to jail for lying to Congress. What more will it take for the same thing to happen to CIA employees who may have lied to Congress?

Director, I think it is important that we get to the bottom of this issue. I think many of us on this committee believe that over the years it has been too difficult to get information from the Intelligence Community on specific areas where they are involved and that we call it the Twenty Questions, where, unless we ask the specific right question, we are not going to get the information that we need to do our job.

In this case specifically, the information appears to be very compelling. Again, it comes out of the CIA Inspector General's report that the information about what happened in this situation was available, was in the Community, was known to many people within the CIA and within the Community, but yet was never shared with Congress, and not only this particular shoot-down but the pattern of what happened to this program and how it was run.

And I hope that you aggressively go after this particular circumstance, because it is still hanging out there. The trouble is it is 5, 6, 7 years later, and there is no accountability. You need to work on restoring the trust between the Community, this committee, Congress, and the American people; and by dealing with this case, I think we can make significant progress in that direction.

Secondly, with the administration's decision to close Guantanamo Bay, I would like to hear when the administration is going to lay out a plan for addressing the threat from radical jihadists in a comprehensive way. Tactical decisions are being made regarding the threat from radical jihadism, but I have yet to hear the administration outline its long-term strategy for containing and ultimately defeating the threat.

How are you going to ensure that efforts to combat radical jihadists are properly resourced in light of planned budget cuts? What direction do you see the administration leading America's fight against radical jihadism, and what would you recommend?

Finally, your own office, the Director. What will the Office of Director of National Intelligence look like? I am concerned by what I perceive and I think many others on this committee perceive as

a dramatic shift from the Congress's vision of the size, composition, and function of the Office of Director of National Intelligence.

When we passed the Intelligence Reform and Terrorist Prevention Act of 2004, we created a new position to help manage the Community and break down barriers between agencies. We deliberately broke apart the functions of the old Director of Central Intelligence and gave the CIA its own director. The DNI was to be a coordinator of the Intelligence Community, a community organizer of sorts. The DNI staff was intended to be small and efficient. It was supposed to stay away from operational management.

In 4 years, Mr. Director, we now have an ODNI that we hardly recognize. The ODNI, under your predecessors, became entangled in management, grew enormous in size, and has amassed too many scarce intelligence resources for itself.

Instead of a lean coordinating body, we got fat. Layer upon layer of bureaucracy in this Community. We wanted this bill to transform the Community, to coordinate the Community. And I appreciated some of the words that you shared with us yesterday, that you said, when I look at the Community, it's working together more effectively than what it was the last time you saw it. And I give the legislation credit and the leadership of the Community for making that happen and integrating the various aspects of the Community.

The other thing that we saw, though, that we wanted to have happen was that the ODNI would force key strategic decisions to be made; and in a number of areas we have seen that the ODNI has not forced the strategic decisions to be made. It, instead, has meshed itself in the tactical day-to-day operations of the Community. And how we experience that is things that we used to get from the Community relatively quickly by asking an agency, hey, we need this information, and getting it a few days later. We now find that we make the request to the Community. A few days later, we ask, where is it? And they say, oh, we had to send it over to the DNI's office. Because before anything comes back to Capitol Hill, they have got to sign off on it. And instead of it being faster, more efficient, it is another layer of bureaucracy and controls, which has slowed the process.

So I hope that under your direction you can create the foundation and the long-term direction for the ODNI that says this is the strategic arm of the Community that integrates the Community and makes sure that the tough and broad decisions get made.

But we are not going to try to manage the Community on a day-to-day basis, because that will just slow the Community down. We need a flexible and agile Community that can respond quickly to the threats that are out there. The ODNI was intended to transform the Community and create that type of a Community, not to be another layer of bureaucracy.

So those are the three points that I would hope that we would hear from that we hope you would address a little bit today.

With that, Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. Thank you, Mr. Hoekstra.

I want to remind our members and witnesses that we are in open session this morning. If there is doubt about the classification of a

particular subject or statement, reserve those issues for the closed session that will follow after this open hearing this morning.

Without objection, the written statement from our witness will be made part of the official record of this hearing.

This morning, Director Blair, you have heard from the ranking member and myself framing some of the issues. You come to this position very highly regarded, highly respected, with a tremendous management background. I, for one, want to give you the time and the flexibility to address these critical areas, as I said in my statement.

You have a sense of the frustration from the members from our meeting yesterday and also from the ranking member's statement this morning. But we are here to support you. We are here to make sure that, as you go through this process and taking over from the previous administration, that you are measured and balanced and give us a clear accounting and your best judgment; and we are ready to work with you.

With that, you are recognized, Mr. Director, for your opening statement.

STATEMENT OF DENNIS C. BLAIR, DIRECTOR OF NATIONAL INTELLIGENCE

Admiral BLAIR. Mr. Chairman, Ranking Member Hoekstra, it seems that there are two sets of questions that you are concerned with this morning.

My main preparation for the hearing was to give a sense of the threats, the opportunities, the strategic landscapes that the United States faces. There are also a series of questions about the capabilities and management of the Community. I would propose that I first give the summary remarks that I prepared on the overall strategic landscape and then perhaps after that get into some of the specific issues which will also be with us for a long time, and perhaps we will have other times to pursue if we don't cover them. Is that satisfactory?

The CHAIRMAN. That is satisfactory. You can proceed.

Admiral BLAIR. Gentlemen, ladies, my assessment is based on the work of thousands of patriotic, hardworking, both collectors and assessors, and the many other people in the 16 Intelligence services. The remarks that I submitted, the report that I submitted, the remarks that I am making involved a lot of work of all of them; and it is a report not just of threats but also of opportunities for this country and a tour of the strategic landscape, which is dynamic and which is complex.

Let me begin with the global economic crisis, because I believe it already looms as the most serious one in decades. Since September, 2008, 10 nations have committed to new IMF programs. Three European governments have fallen because of economic issues. Central and Eastern Europe are under tremendous strain, both in terms of their currency and in terms of their internal economies. And, unlike the 1997–1998 Asian financial crisis, countries will not be able to export their way out of the crisis in one region of the world because it is so widespread. And the stakes are high.

Mexico, which the chairman mentioned, with its close trade links to the United States, is vulnerable to a prolonged American recession. Europe and the former Soviet Union bloc have experienced anti-state demonstrations. Much of Eurasia, Latin America, and sub-Saharan Africa lack sufficient cash reserves and access to international aid.

Our analysis indicates that economic crises increase the risk of regime-threatening instability if they continue for a 1- or 2-year period. Instability can loosen the fragile hold that many developing countries have on law and order.

There are some silver linings. With low oil prices, Venezuela will face financial constraints this year. Iran's President faces less than certain prospects for re-election in June because of his handling of his economy.

However, the reverse of that is that a serious energy supply crunch may happen in the longer term if sustained low prices leads to cuts or major delays in new investments in energy sources in the short term. The crisis presents challenges for the United States, since we are generally held responsible for it.

The November G–20 summit elevated the influence of emerging market nations, more than just the G–8, who previously were the main meetings. But the U.S. also has opportunities to demonstrate increased leadership. Our openness, developed skills, workforce mobility put us in a better position to reinvent ourselves than other countries.

Moreover, Washington will have the opportunity to fashion new global structures that benefit all in this crisis. The President certainly talked at length last night about the steps he is taking in the domestic economy, and there is much to do in the international economy as well.

Moving now to terrorism. We have seen progress in Muslim opinion turning against terrorist groups. Over the last 18 months, al-Qa'ida has faced public criticism from prominent religious leaders and even from some fellow extremists. In 2008, these terrorists did not achieve their goal of conducting another major attack on the United States, and no major country is at immediate risk of attack from extremist terrorist groups.

Replacing the loss of key leaders since 2008 in Pakistan's Federally Administered Tribal Areas has proved difficult for al-Qa'ida. Al-Qa'ida in Iraq has been squeezed. Saudi Arabia's aggressive counterterrorism efforts have rendered the kingdom a harsh operating environment for al-Qa'ida.

But, despite these setbacks, al-Qa'ida does remain dangerous. Yemen is reemerging as a jihadist battleground. The capabilities of terrorism groups in East Africa will increase next year, and we are concerned about the potential for homegrown American extremists inspired by al-Qaeda's militant ideology to plan attacks inside the United States.

There are many challenges in that region that stretches from the Middle East to South Asia, despite the progress I mentioned in countering violent extremism. The United States has strong tools, from military force to diplomacy, and good relationships with the vast majority of states in the region; and we will need all of these

tools to help forge a durable structure of peace and renewed prosperity in the region.

The revival of Iran as a regional power, the deepening of ethnic sectarian economic divisions across much of the region, the looming leadership successions among U.S. allies are all shaping the strategic landscape in that region.

Hezbollah and Hamas, with support from Iran, championed armed resistance to Israel, a development that complicates efforts to resolve the Israeli-Palestinian dispute and undercuts the legitimacy of modern Arab states to support a negotiated settlement.

Battle lines are increasingly drawn not just between Israel and Arab countries but also between secular Arab nationalists and ascendant Islamic nationalist movements inside moderate states.

The Iranian regime views the United States as its enemy and as a threat. A more assertive regional Iranian foreign policy, coupled with dogged development of two of the major components of a nuclear weapons capability, alarms most of the governments from Riyadh to Tel Aviv. The Levant is the key focal point for these strategic shifts. Recent fighting between Israel and Hamas in the Gaza Strip has deepened Palestinian political divisions. It has also widened the rift between regional moderates led by Egypt, Saudi Arabia, and Jordan and hardliners, including Iran, Hezbollah, and Syria.

With Hamas controlling Gaza and Hezbollah growing stronger in Lebanon, progress on a Palestinian-Israeli accord is more difficult. With Iran pursuing uranium enrichment and Israel determined not to allow it to develop a nuclear weapons capability, there is potential for an Iran-Israeli confrontation or crisis.

Moderate Arab states fear a nuclear armed Iran, but without progress on a Palestinian settlement, they are harder put to defend their ties to the United States.

Turning to Iraq. Coalition and Iraqi operations and dwindling popular tolerance for violence have helped to sideline the extremists there. Fewer Iraqis are dying at the hands of their countrymen than at any time in the past 2 years.

Nevertheless, disputed internal boundaries, perceptions of government repression, or potential increased foreign support to insurgent or militia groups could reverse political and security progress. Baghdad will also be coping with declining oil revenues.

In Afghanistan, the Taliban-dominated insurgency forces have demonstrated greater aggressiveness recently. Improved governance and extended development were hampered in 2008 by lack of security. Afghan leaders must tackle endemic corruption and the extensive drug trade.

Progress has been made in expanding and fielding the Afghan National Army, but many factors hamper efforts to make the units capable of independent action. The upcoming 2009 presidential election will present a greater security challenge than did that in 2004, and insurgents probably will make a concerted effort to disrupt it.

No improvement in Afghanistan is possible without Pakistan taking control of its border areas and improving governance and creating economic and educational opportunities throughout the country.

In 2008, Islamabad intensified counterinsurgency efforts, but its record in dealing with militants has been mixed as it balances conflicting internal counterterrorist priorities. The government is losing authority in the north and the west, and even in the more developed parts of the country mounting economic hardships and frustration over poor governance have given rise to greater radicalization.

The time when only a few states had access to the most dangerous technologies is, unfortunately, long over. Often dual use, they circulate easily in our globalized economy, as does the scientific expertise to put them together in weapons.

It is difficult for the United States and its partners to track them. Components and production technologies are widely available. Traditional deterrents and diplomacy may not prevent terrorist groups from using mass affect weapons.

One of the most important security challenges facing the United States is fashioning a more effective nonproliferation strategy with our partners.

The assessments in our 2007 National Intelligence Estimate about Iran's nuclear weapons program are generally valid. Tehran, at a minimum, is keeping open the option to develop deliverable nuclear weapons. The halt since 2003 in nuclear weapons design and weaponization was primarily in response to increasing international scrutiny and pressure. So it leads us to believe that some combination of threats, threats of intensified internal scrutiny and pressures, along with opportunities for Iran to achieve its security goals, might prompt Tehran to extend the halt to some other nuclear weapons-related activities.

Turning to Asia, rapidly becoming the long-term focus of power in the world, Japan remains the second largest global economy and a strong ally. But the global downturn is exacting a heavy toll on Japan's economy. To realize its aspirations to play a stronger regional and global role will require political leadership and difficult decisions there.

The rising giants, China and India, are playing increasing regional roles economically, politically, and militarily. China tries to secure access to markets, commodities, and energy supplies that it needs to sustain domestic economic growth. Chinese diplomacy seeks to maintain favorable relations with other powers, and especially the United States. The global economic slowdown threatens China's domestic stability, and Chinese leaders are taking economic and security steps to deal with it.

Taiwan as an area of tension in U.S.-China relations has substantially relaxed. Taiwan President Ma, inaugurated in May, has resumed dialog with Beijing; and leaders on both sides of the straits are cautiously optimistic about less confrontational relations.

Preparations for a possible Taiwan conflict nonetheless drive the modernization goals of the People's Liberation Army, but, at the same time, China's security interests are broadening. Full civilian and military space capability, formidable capabilities in cyberspace are rapidly developing. China will attempt to develop at least a limited naval power projection capability, and we have already

seen it deployed for peaceful purposes in anti-piracy off the coast of Somalia.

Like China, India's expanding economy will lead New Delhi to pursue new trade partners, gain access to vital energy markets, and generate other resources to sustain economic growth. India's growth rate will slow this coming year, but ample foreign reserves and a sound banking system will help ensure relative stability there.

Determined efforts by India and Pakistani leaders to improve relations could unravel unless Islamabad for its part takes meaningful steps to cut support to anti-Indian militant groups and New Delhi for its part in turn makes credible efforts to allay Pakistan security concerns.

The increase in violent attacks within India is a cause of great concern to its government, as is instability in neighboring countries in south Asia, in addition to Pakistan.

On the global stage, Indian leaders will continue to follow an independent course. That we and India are both democracies does not guarantee a congruence of interests. Nonetheless, good relations with United States will be essential for India to realize its global ambitions.

Although the Middle East and Asia have the highest call on our attention, our concerns are broader. Russia is actively cultivating relations with regional powers, including China, Iran, Venezuela. Moscow is also trying to maintain control over energy networks that go to western Europe and to east Asia.

Now, Russian leaders have recently spoken positively about the possibilities for change in the U.S.-Russian dynamic, but NATO enlargement, the conflict over Georgia's separatist regions, missile defense, all pose difficulties in the relationship.

In Latin America, populist, often autocratic, regimes pose challenges to the region's longer term success. Basic law and order issues, including rising violent crime, powerful drug trafficking organizations, confront key hemispheric nations, as do uneven governance and institution-building efforts in confronting chronic corruption.

The corruptive influence and increasing violence of Mexican drug cartels impede Mexico City's ability to govern parts of its territory. Unless the United States is able to deliver market access on a permanent and meaningful basis, its traditionally privileged position could erode with a concomitant decline in political influence.

Africa has made substantial economic and political progress over the past decade; and the level of open warfare has declined significantly, especially in Liberia, Sierra Leone, and the Ivory Coast. The drop in commodity prices and global recessions will, however, test the durability of the region's recent positive growth trend. Even before the current crisis, the 6 percent GDP rate which Africa was achieving, although impressive, could not bring about the necessary structural changes to reduce poverty there.

A number of intractable conflicts persist in the Democratic Republic of the Congo, Nigeria, Sudan, and Somalia. In Darfur, U.N. peace talks remain stymied; and larger peacekeeping forces are slow to deploy.

Let me finish with the long-term challenges of environmental security and the threats to our information technology infrastructure.

Adding more than a billion people to the world population by 2025 will put pressure on clean energy sources and on water supplies. Most of the world's population will move from rural to urban areas, seeking economic opportunity; and many, particularly in Asia, will achieve advanced lifestyles with greater per capita consumption and generation of pollution.

According to the U.N.'s Intergovernmental Panel on Climate Change, physical affects of climate change will worsen in coming years. Multilateral policymaking on climate change is likely to be substantial and a growing priority within traditional security affairs.

The world sees the United States in a pivotal leadership role. As effects of climate change mount, the U.S. will come under increasing pressure to help the international community set goals for mission reductions and to help others through technological progress.

Finally, threats to our information technology infrastructure are an important Intelligence Community focus. Our information infrastructure is becoming both indispensable to the functioning of our society and vulnerable to catastrophic disruption in the way that previous analog decentralized systems were not. Cyber systems are being targeted for exploitation and potentially for destruction or disruption by a growing array of both nonstate and state adversaries.

Network defense technologies are widely available to mitigate threats but have not been uniformly adopted. A number of nations, including Russia and China, can disrupt elements of the U.S. information structure. We must take protective measures to detect and prevent intrusions before they do significant damage. We must recognize that cyber defense is not a one-time fix. It requires a continual investment of hardware, software, and cyber defenses.

In conclusion, the international security environment the United States faces is complex. The global financial crisis has exacerbated what was already a growing set of political and economic uncertainties. We, nevertheless, are in a strong position to shape a world reflecting universal aspirations and the values that motivated Americans since 1776: human rights, the rule of law, liberal market economics, social justice. Whether we can succeed will depend on actions we take here at home, restoring strong economic growth, maintaining our scientific and technological edge, and defending ourselves at reasonable costs while preserving our civil liberties.

It will also depend on our actions abroad, not only how we deal with regions, regimes, and crises but also in developing new multilateral systems, formal or informal, for effective international cooperation in areas such as trade and finance, in neutralizing extremist groups using terrorism, in controlling the proliferation of weapons of mass destruction, developing codes of conduct for cyberspace and space, and in mitigating and slowing global climate change.

Mr. Chairman, that concludes my remarks. I would be happy to turn to questions.

The CHAIRMAN. Thank you, Mr. Director.

[The statement of Admiral Blair follows:]

Annual Threat Assessment of the Intelligence Community for the House Permanent Select Committee on Intelligence

Dennis C. Blair

Director of National Intelligence

25 February 2009

February 2009

HOUSE PERMANENT SELECT COMMITTTEE ON INTELLIGENCE

FEBRUARY 2009

INTELLIGENCE COMMUNITY ANNUAL THREAT ASSESSMENT

UNCLASSIFIED
STATEMENT FOR THE RECORD

Chairman Reyes, Ranking Member Hoekstra, Members of the Committee, thank you for the invitation to offer my assessment of threats to US national security. As in previous years, the judgments I offer the Committee in these documents and remarks and in my responses to your questions are based on the efforts of thousands of patriotic, highly skilled professionals, many of whom serve in harm's way. I am proud to lead the world's best Intelligence Community and would like to acknowledge the assistance provided by all the intelligence agencies in preparing this report, in particular the National Intelligence Council and CIA's Directorate of Intelligence, which contributed a substantial portion.

Far-Reaching Impact of Global Economic Crisis

The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications. The crisis has been ongoing for over a year, and economists are divided over whether and when we could hit bottom. Some even fear that the recession could further deepen and reach the level of the Great Depression. Of course, all of us recall the dramatic political consequences wrought by the economic turmoil of the 1920s and 1930s in Europe, the instability, and high levels of violent extremism. Though we do not know its eventual scale, it already looms as the most serious global economic and financial crisis in decades.

Forecasts differ significantly over the depth of the downturn. Industrialized countries are already in recession, and growth in emerging market countries, previously thought to be immune from an industrialized country financial crisis, has also faltered, and many are in recession as well. Even China and India have seen their dynamic growth engines take a hit as they grapple with falling demand for their exports and a slowdown in foreign direct and portfolio investments. Governments worldwide are initiating monetary and fiscal stimulus programs designed to stabilize and recapitalize their financial sectors, cushion the impact of stalling economic activity, and eventually jumpstart a recovery, perhaps as early as late 2009. The IMF, which recently released its revised forecast for 2009 projecting an anemic 0.5 percent increase in the global economy, warns that the risks to the global economy are on the downside.

The financial crisis and global recession are likely to produce a wave of economic crises in emerging market nations over the next year, prompting additional countries to request IMF or other multilateral or bilateral support. Since September 2008, ten nations committed to new IMF programs intended to provide balance of payments support. All face the task of tackling economic problems in a less benign global economic environment. Unlike the Asian financial crisis of 1997-98, the globally synchronized nature of this slowdown means that countries will not be able to export their way out of this recession. Indeed, policies designed to promote domestic export industries—so-called beggar-thy-neighbor policies such as competitive currency devaluations, import tariffs, and/or export subsidies—risk unleashing a wave of destructive protectionism.

Time is probably our greatest threat. The longer it takes for the recovery to begin, the greater the likelihood of serious damage to US strategic interests. Roughly a quarter of the countries in the world have already experienced low-level instability such as government changes because of the current slowdown. Europe and the former Soviet Union have experienced the bulk of the anti-state demonstrations. Although two-thirds of countries in the world have sufficient financial or other means to limit the impact for the moment, much of Latin America, former Soviet Union states and sub-Saharan Africa lack sufficient cash reserves, access to international aid or credit, or other coping mechanism. Statistical modeling shows that economic crises increase the risk of regime-threatening instability if they persist over a one to two year period. Besides increased economic nationalism, the most likely political fallout for US interests will involve allies and friends not being able to fully meet their defense and

humanitarian obligations. Potential refugee flows from the Caribbean could also impact Homeland security.

The dramatic decline in oil prices—more than a two-thirds decline from the July peak of $147 per barrel—is partially a result of the market betting on a deep and perhaps protracted global recession. A serious supply crunch is possible down the road if sustained low prices lead to major cuts or delays in investment by national and international oil companies, especially high cost unconventional oil sources like oil sands. Nevertheless, lower prices benefit consumers, and declining revenues may put the squeeze on the adventurism of producers like Iran and Venezuela.

The crisis presents many challenges for the United States. It started in the United States, quickly spread to other industrial economies and then, more recently, to emerging markets. The widely held perception that excesses in US financial markets and inadequate regulation were responsible has increased criticism about free market policies, which may make it difficult to achieve long-time US objectives, such as the opening of national capital markets and increasing domestic demand in Asia. It already has increased questioning of US stewardship of the global economy and the international financial structure.

The November G-20 financial summit in Washington also elevated the influence of large, emerging market nations. As was the case in the Asian financial crisis, China has an opportunity to increase its prestige if Beijing can exert a stabilizing influence by maintaining strong import growth and not letting its currency slide. But the United States also has opportunities to demonstrate increased leadership domestically, bilaterally, and in multilateral organizations such as the WTO, APEC, and ASEAN. Recessions are a relative game, and historically the United States has proven more adroit at responding to them than most. The US tradition of openness, developed skills, and mobility probably puts it in a better position to reinvent itself. Moreover, in potentially leading recovery efforts in coordination with the G-20, Washington will have the opportunity to fashion new international global structures that can benefit all. Global coordination and cooperation on many fronts will be required to rebuild trust in the global financial system and to ensure that the economic and financial crises do not spiral into broader geopolitical tensions.

Turning the Corner on Violent Extremism

I next want to focus on extremist groups that use terrorism. The groups with the greatest capability to threaten are extremist Muslim groups. In 2008 terrorists did not achieve their goal of conducting another major attack in the US Homeland. We have seen notable progress in Muslim opinion turning against terrorist groups like al-Qa'ida. Over the last year and a half, al-Qa'ida has faced significant public criticism from prominent religious leaders and fellow extremists primarily regarding the use of brutal and indiscriminate tactics—particularly those employed by al Qa'ida in Iraq (AQI) and al-Qa'ida in the Lands of Islamic Maghreb (AQIM)—that have resulted in the deaths of Muslim civilians. Given the increased pressure posed by these criticisms, al-Qa'ida leaders increasingly have highlighted enduring support for the Taliban and the fight in Afghanistan and Pakistan and in other regions where they portray the West being at

war with Islam and al-Qa'ida as the vanguard of the global terrorist movement. A broad array of Muslim countries is nevertheless having success in stemming the rise of extremism and attractiveness of terrorist groups. No major country is at immediate risk of collapse at the hands of extremist, terrorist groups, although a number—such as Pakistan and Afghanistan—have to work hard to repulse a still serious threat. In the next section I will discuss at length the challenges facing us in Pakistan and Afghanistan where militant have gained some traction despite the successes against al-Qa'ida.

Because of the pressure we and our allies have put on al-Qa'ida's core leadership in Pakistan and the continued decline of al-Qa'ida's most prominent regional affiliate in Iraq, al-Qa'ida today is less capable and effective than it was a year ago.

In **Pakistan**'s Federally Administered Tribal Areas (FATA), al-Qa'ida lost significant parts of its command structure since 2008 in a succession of blows as damaging to the group as any since the fall of the Taliban in late 2001. Key leaders killed over the past year include Khalid Habib, al-Qa'ida's military chief and the fourth man in its chain of command; Abu Layth al-Libi, who directed cross-border attacks against our forces in Afghanistan and was a rising star in the organization; Abu Khabab al-Masri, the group's leading expert on explosives and chemical attacks and a driving force behind its terrorist plotting against the US Homeland and Europe; and Usama al-Kini who was involved in the bombings of our Embassies in East Africa in 1998 and later became the chief planner of al-Qa'ida's terrorist attacks in Pakistan.

- The loss of these and many other leaders in quick succession has made it more difficult for al-Qa'ida to identify replacements, and in some cases the group has had to promote more junior figures considerably less skilled and respected than the individuals they are replacing.

Sustained pressure against al-Qa'ida in the FATA has the potential to further degrade its organizational cohesion and diminish the threat it poses. If forced to vacate the FATA and locate elsewhere, the group would be vulnerable to US or host-country security crackdowns as well as local resistance, and probably would be forced to adopt an even more dispersed, clandestine structure, making training and operational coordination more difficult. Without access to its FATA safehaven, al-Qa'ida also undoubtedly would have greater difficulty supporting the Taliban insurgency in Afghanistan. It is conceivable al-Qa'ida could relocate elsewhere in South Asia, the Gulf, or parts of Africa where it could exploit a weak central government and close proximity to established recruitment, fundraising, and facilitation networks, but we judge none of these locations would be as conducive to their operational needs as their location in the FATA.

In **Iraq,** we judge the maturation of the Awakening movement, Iraqi Security Forces gains, and the subsequent spread of Sons of Iraq (SOI) groups, in combination with Coalition operations against AQI leaders, have reduced AQI's operational capabilities and restricted the group's freedom of movement and sanctuaries. Nevertheless, we judge the group is likely to retain a residual capacity to undertake terrorist operations for years to come. I will focus on AQI in greater detail when I discuss Iraq.

Saudi Arabia's aggressive counterterrorism efforts since 2003 have rendered the Kingdom a harsh operating environment for al-Qa'ida, but Riyadh is now facing new external

threats from al-Qa'ida elements in the region, particularly from Yemen. Senior al-Qa'ida leaders are focused on resurrecting an operational presence due to Saudi security actions over the past five years that have resulted in the death or capture of most identified Saudi-based al-Qa'ida senior leaders and operatives. Senior al-Qa'ida leaders view the Kingdom as a strategic target owing to Bin Ladin's longstanding objective of unseating the al-Saud family and the symbolic value of attacking Western and Saudi targets in the land of the two holy mosques.

The Saudi Government counterterrorism approach includes law enforcement efforts coupled with a complementary long-term program to stem radicalization. Riyadh's multi-faceted "counter-radicalization" and "de-radicalization" strategy uses detainee rehabilitation programs, the media, and religious scholars to combat terrorism and build public support for its strong security posture.

Counterterrorism efforts by **Indonesia**, in some cases with US assistance, have led to the arrests and deaths of hundreds of Jemaah Islamiya (JI) operatives, including top leaders and key operatives. In November, Indonesia executed three JI terrorists—Imam Samudra, Mukhlas, and Amrozi—for their role in the 2002 Bali bombings. While the Intelligence Community continues to assess that JI in Indonesia and the Abu Sayyaf Group (ASG) in the Philippines are the two terrorist groups posing threats to US interests in Southeast Asia, efforts by Southeast Asian governments against both groups in the past few years have degraded their attack capabilities.

The primary threat from **Europe**-based extremists stems from al-Qa'ida and Sunni affiliates who return from training in Pakistan to conduct attacks in Europe or the United States. We have had limited visibility into European plotting, but we assess that al-Qa'ida is continuing to plan attacks in Europe and the West. Al-Qa'ida has used Europe as a launching point for external operations against the Homeland on several occasions since 9/11, and we believe that the group continues to view Europe as a viable launching point. Al-Qa'ida most recently targeted **Denmark** and the **UK,** and we assess these countries remain viable targets. Al-Qa'ida leaders have also prominently mentioned **France**, most likely in reprisal for the 2004 headscarf ban.

The social, political, and economic integration of Western Europe's 15 to 20 million Muslims is progressing slowly, creating opportunities for extremist propagandists and recruiters. The highly diverse Muslim population in Europe already faces much higher poverty and unemployment rates than the general population, and the current economic crisis almost certainly will disproportionately affect the region's Muslims. Numerous worldwide and European Islamic groups are actively encouraging Muslims in Europe to reject assimilation and support militant versions of Islam. Successful social integration would give most ordinary Muslims a stronger political and economic stake in their countries of residence, even though better educational and economic opportunities do not preclude radicalization among a minority. Visible progress toward an Arab-Israeli settlement, along with stability in Iraq and Afghanistan, would help undercut radicals' appeal to Muslim foreign policy grievances.

European governments are undertaking a wide range of policies to promote Muslim social integration and counter radicalization. In addition to pursuing socioeconomic initiatives aimed at all immigrants, **France**, **Germany**, **Italy**, and several smaller European countries have

established various types of religious-based consultative councils composed of leading Muslim groups. Additionally, the **United Kingdom** has established the most diversified and energetic official outreach program to Muslims, largely reflecting concern about homegrown terrorism since the July 2005 London attacks. Among other initiatives, the UK Government has promoted the creation of an advisory board on mosque governance, a committee of Muslim theologians, and consultative bodies of Muslim women and youth. It also has held multiple high profile conferences with Islamic scholars and government representatives from the Muslim world. British police have made a conscious decision to seek the cooperation of non-violent radicals even while political authorities have encouraged former radicals and Sufis to speak out against hardline political Islam.

Core Al-Qa'ida

Despite these successes, al-Qa'ida and its affiliates and allies remain dangerous and adaptive enemies, and the threat they could inspire or orchestrate an attack on the United States or European countries. Under the strategic direction of Usama Bin Ladin and his deputy, Ayman al-Zawahiri, al-Qa'ida remains intent on attacking US interests worldwide, including the US Homeland. Although al-Qa'ida's core organization in the tribal areas of Pakistan is under greater pressure now than it was a year ago, we assess that it remains the most dangerous component of the larger al-Qa'ida network. Al-Qa'ida leaders still use the tribal areas as a base from which they can avoid capture, produce propaganda, communicate with operational cells abroad, and provide training and indoctrination to new terrorist operatives.

- We lack insight into specific details, timing, and intended targets of potential, current US Homeland plots, although we assess al-Qa'ida continues to pursue plans for Homeland attacks and is likely focusing on prominent political, economic, and infrastructure targets designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks, and/or fear among the population.

- Increased security measures at home and abroad have caused al-Qa'ida to view the West, especially the United States, as a harder target than in the past, but we remain concerned about an influx of Western recruits into the tribal areas since mid-2006.

- Al-Qa'ida and its extremist sympathizers in Pakistan have waged a campaign of deadly and destabilizing suicide attacks throughout Pakistan, including the bombing of the Marriott Hotel in Islamabad in September, which killed 60 people and wounded hundreds.

AQIM. Al-Qa'ida's other robust affiliate, al-Qa'ida in the Lands of the Islamic Maghreb, is the most active terrorist group in northwestern Africa and, in our assessment, represents a significant threat to US and Western interests in the region. AQIM has continued to focus primarily on Algerian Government targets, but since its merger with al-Qa'ida in September 2006 the group has expanded its target set to include US, UN, and other Western interests and has launched progressively more sophisticated attacks, employing vehicle-borne improvised explosive device (VBIEDs), near-simultaneous bombings, and suicide bombings.

- AQIM has conducted nearly a dozen attacks against Western targets to include a near-simultaneous VBIED attack against United Nations facilities and the Algerian Constitutional

Court in Algiers in December 2007, killing at least 47 and wounding more than 100. AQIM associates also attacked the Israeli Embassy in Mauritania in February 2008.

- AQIM Europe-based cells act as financial support and facilitation nodes, but these cells could possibly become operational at the direction of AQIM leadership.

We assess that over the next year AQIM will continue to demonstrate its increased capability and commitment to senior al-Qa'ida leadership by attacking local and Western interests throughout North Africa and the Sahel. AQIM traditionally has operated in Algeria and northern Mali and has recruited and trained an unknown number of extremists from Tunisia, Morocco, Nigeria, Mauritania, Libya, and other countries. We assess some of these trainees may have returned to their home countries to plot attacks against local and Western interests.

Al-Qa'ida in Yemen. Yemen is reemerging as a jihadist battleground and potential regional base of operations for al-Qa'ida to plan internal and external attacks, train terrorists, and facilitate the movement of operatives. Al-Qa'ida leaders could use al-Qa'ida in Yemen and the growing presence of foreign jihadists there to supplement its external operations agenda, promote turmoil in Saudi Arabia, and weaken the Salih regime.

- Al-Qa'ida in Yemen on 17 September 2008 conducted an attack against the US Embassy in Sana'a. The coordinated attack used two explosives-laden vehicles, suicide bombers, and small-arms fire and killed six guards and four civilians. As of September 2008, the group had conducted 20 attacks against US, Western, and Yemeni targets, most carried out by the splinter faction, Jund al-Yemen.

East Africa. We judge the terrorist threat to US interests in East Africa, primarily from al-Qa'ida and al-Qa'ida-affiliated Islamic extremists in Somalia and Kenya, will increase in the next year as al-Qa'ida's East Africa network continues to plot operations against US, Western, and local targets and the influence of the Somalia-based terrorist group al-Shabaab grows. Given the high-profile US role in the region and its perceived direction—in the minds of al-Qa'ida and local extremists—of foreign intervention in Somalia, we assess US counterterrorism efforts will be challenged not only by the al-Qa'ida operatives in the Horn, but also by Somali extremists and increasing numbers of foreign fighters supporting al-Shabaab's efforts.

The Homegrown Threat

We judge any homegrown extremists in the United States do not yet rise to the numerical level or exhibit the operational tempo or proficiency we have seen in Western Europe. A range of factors inside the United States may contribute to a lower incidence of homegrown cells developing. Nevertheless, we remain concerned about the potential for homegrown extremists inspired by al-Qa'ida's militant ideology to plan attacks inside the United States, Europe, and elsewhere without operational direction from the group itself. In this regard, over the next year we will remain focused on identifying any ties between US-based individuals and extremist networks overseas. Though difficult to measure, the spread of radical Salafi Internet sites that provide religious justification for attacks; aggressive and violent anti-Western rhetoric; and signs that self-generating cells in the US identify with Bin Ladin's violent objectives all point to the likelihood that a small but violent number of cells may develop here.

- Al-Qa'ida's propaganda efforts include messages in English and those aimed specifically at an American audience either in translated form or directly by al-Qa'ida's second-in-command, Ayman al-Zawahiri, such as with his November 2008 video message following the US Presidential elections. US-born al-Qa'ida members such as Adam Gadahn, who was indicted by a US grand jury in October 2006 on charges of treason, providing material support to a designated foreign terrorist organization, and aiding and abetting terrorists, also participated in making these English-language propaganda messages.

The Threat from Lebanese Hizballah

Lebanese Hizballah continues to be a formidable terrorist adversary with an ability to attack the US Homeland and US interests abroad. Hizballah is a multifaceted, disciplined organization that combines political, social, paramilitary, and terrorist elements, and we assess that any decision by the group to resort to arms or terrorist tactics is carefully calibrated. At the same time, we judge armed struggle, particularly against Israel, remains central to Hizballah's ideology and strategy.

We assess Lebanese Hizballah, which has conducted anti-US attacks overseas in the past, may consider attacking US interests should it perceive a direct US threat to the group's survival, leadership, or infrastructure or to Iran. However, we judge Hizballah would carefully weigh the decision to take any action against the United States. Hizballah probably continues to support proxy groups and individuals, which could provide the group plausible deniability for possible attacks against the West or Israel.

We assess Hizballah anticipates a future conflict with Israel and probably continues to implement lessons learned from the conflict in the summer of 2006. In a potential future conflict, Hizballah is likely to be better prepared and more capable than in 2006.

The "Arc of Instability"

The large region from the Middle East to South Asia is the locus for many of the challenges facing the United States in the twenty-first century. While we are making progress countering terrorism, the roots and the issues related to the many problems in this region go deeper and are very complicated. The United States has strong tools—from military force to diplomacy in the region and good relationships with the vast majority of states. There is almost universal recognition that the United States is vital to any solutions, and these can be brought to bear in ways that benefit the United States and the region. I will begin with looking at individual states, but the Intelligence Community analysis I present here emphasizes the regional linkages exacerbating problems and providing opportunities that are available for tackling the problems.

The Changing Geopolitical Landscape in the Middle East

In the Middle East, the revival of Iran as a regional power, the deepening of ethnic, sectarian, and economic divisions across much of the region, and looming leadership succession among US allies are shaping the strategic landscape. Hizballah and HAMAS have successfully seized the mantle of resistance to Israel from moderate regimes with secular Arab nationalists being discredited in the popular mind. Battle lines are increasingly drawn not just between Israel

and Arab countries but also between secular Arab nationalists and ascendant Islamic nationalist movements inside moderate Arab states. Iran's influence in Iraq, its enduring strategic ties to Syria, pursuit of a nuclear weapons capability, and the success of Tehran's allies—HAMAS and Hizballah—are fueling Iran's aspirations for regional preeminence. Arab Sunni leaders are struggling to limit Iran's gains; Saudi Arabia's more activist regional diplomacy falls short of significantly constraining Iran's freedom of maneuver. Iran's ambitions combined with unresolved conflicts in Iraq, Lebanon, and the Palestinian territories represent the principal flashpoints for intensified conflict in the region.

Iran's longstanding foreign policy goals are to preserve the Islamic regime, safeguard Iran's sovereignty, defend its nuclear ambitions, and expand its influence in the region and the Islamic world. Iranian leaders perceive that regional developments—including the removal of Saddam and the Taliban, challenges facing the Untied States in Iraq and Afghanistan, the increased influence of HAMAS and Hizballah, and, until recently, higher oil revenues—have given Tehran more opportunities and freedom to pursue its objective of becoming a regional power. This perception has produced a more assertive Iranian foreign policy in which Tehran has focused on expanding ties in Iraq, Afghanistan, and the Levant to better influence and exploit regional political, economic, and security developments. Iran's pursuit of nuclear weapon capability is another element in its more assertive foreign policy—an aspect that I will discuss later.

In Tehran, Iran's conservative faction continues to dominate the government. Supreme Leader Khamenei has consolidated political power in his office, but his reliance on hardline conservative elements—the IRGC, war veterans turned politicians such as President Mahmud Ahmadi-Nejad, and selected clerics—to bolster his authority has upset the earlier factional balance in Iranian politics.

- Although the regime still comprises many competing factions, only those that support the concept of a powerful Supreme Leader and advocate revolutionary values now have a significant voice in decisionmaking.

President Ahmadi-Nejad faces less than certain prospects for reelection in June because his management of the economy and aggressive foreign policy rhetoric have become sources of significant domestic criticism and political friction. Ahmadi-Nejad's economic policies have reduced unemployment marginally, but have fueled significant inflation, providing his critics ample ammunition to question his competence. The sharp fall in global oil prices will add to Iran's economic problems, but Tehran has a substantial cushion of foreign reserves to support social and other spending priorities. Less energy revenues may also help to dampen its foreign policy adventurism.

We expect Khamenei will attempt to manipulate the presidential election, largely by limiting the range of candidates. As he has in past elections, the Supreme Leader probably will attempt to influence the decisions of individuals to run, monitor the vetting and approval of candidates, and influence media coverage of the campaign.

- We do not know if Khamenei will actively support Ahmadi-Nejad's re-election. The Supreme Leader publicly has expressed support for Ahmadi-Nejad's administration, but we judge his statements are intended more to minimize criticisms of the regime than to endorse the President.

- Although we expect that whoever is elected will be a strong supporter of the Islamic Republic, we note that the election of a more pragmatic figure may, over time, produce some moderation of Iranian behavior by introducing into the decisionmaking process a wider range of options than those presented under Ahmadi-Nejad.

Militarily, Iran continues to strengthen the three pillars of its strategic deterrence: surface-to-surface missiles, long-range rockets and aircraft for retaliation; naval forces to disrupt maritime traffic through key waterways; and unconventional forces and surrogates to conduct worldwide lethal operations. Although many of their statements are exaggerations, Iranian officials throughout the past year have repeatedly claimed both greater ballistic missile capabilities that could threaten US and allied interests and the ability to close the Strait of Hormuz using unconventional small boat operations, anti-ship cruise missiles, and other naval systems. Some officials, such as Islamic Revolutionary Guard Corps Commander Major General Mohammad Ali Jafari-Najafabadi, have hinted that Iran would have a hand in attacks on "America's interests even in far away places," suggesting Iran has contingency plans for unconventional warfare and terrorism against the United States and its allies.

Iran's goals in Iraq include preventing the emergence of a threat from Iraqi territory, either from the government of Iraq itself, or from the United States. To achieve this, Iran probably seeks a government in Baghdad in which Tehran's Shia allies hold the majority of political, economic, and security power. Iran also has sought to make the United States suffer political, economic, and human costs in order to limit US engagement in the region and to ensure that Washington does not maintain a permanent military presence in Iraq or use its military to pressure or attack Iran.

- Iranian efforts to secure influence in Iraq encompass a wide range of activities, including using propaganda, providing humanitarian assistance, building commercial and economic ties, and supporting Shia elements fighting the Coalition. Iran has provided a variety of Shia militants with lethal support including weapons, funding, training, logistical and operational support, and intelligence training.

- We judge Iran will continue to calibrate its lethal aid to Iraqi Shia militants based on the threat it perceives from US forces in Iraq, the state of US-Iran relations, Tehran's fear of a Ba'thist resurgence, Tehran's desire to help defend Iraqi Shia against sectarian violence, and to maintain the ability to play a spoiler role in Iraq if Iran perceives the government of Iraq has become a strategic threat.

- Despite Tehran's efforts, we judge Iraqi nationalism and the growing capabilities of the Iraqi government will limit Iranian influence in Iraq. Baghdad, for example, signed the US-Iraq security agreement despite Iranian opposition.

In Afghanistan, Iran has focused on promoting a friendly central government in Kabul and limiting Western power and influence. Iran's policy in Afghanistan follows multiple tracks, including providing political and economic support to the Karzai government and developing relationships with actors across the political spectrum.

- Iran has opposed Afghan reconciliation talks with the Taliban as risking an increase in the group's influence and legitimacy.

- We judge Iran distrusts the Taliban and opposes its return to power but uses the provision of lethal aid as a way to pressure Western forces, gather intelligence, and build ties that could protect Iran's interests if the Taliban regains control of the country.

In the Levant, Tehran is focused on building influence in Lebanon and expanding the capability of key allies. Tehran continues to support groups such as Hizballah, HAMAS, and Palestine Islamic Jihad (PIJ), which it views as integral to its efforts to challenge Israeli and Western influence in the Middle East.

- Hizballah is the largest recipient of Iranian financial aid, training, and weaponry, and Iran's senior leadership has cited Hizballah as a model for other militant groups. We assess Tehran has continued to provide Hizballah with significant amounts of funding, training, and weapons since the 2006 conflict with Israel, increasing the group's capabilities to pressure other Lebanese factions and to threaten Israel.

- Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel and oppose the Palestinian Authority.

Worsening Conflict in the Levant

The Palestinian Territories and **Lebanon** are two places where the multifaceted connections of which I spoke are most pronounced in this arc of instability. Two non-state actors, HAMAS and Hizballah, play prominent roles, while individual states that oppose US interests, such as Iran and Syria, also are prominent. In both these countries, we worry about worsening conflict and the potential for growing violent extremism.

Fighting between Israel and HAMAS in the Gaza Strip subsided in mid-January, leaving in its wake hardened attitudes among Israelis and Palestinians, deepened Palestinian political divisions, and a widened rift between regional moderates—led by Egypt, Saudi Arabia, and Jordan—and hardliners, including Iran, Hizballah, and Syria. A key challenge for US policy in the coming year will be finding ways to strengthen moderates and renew the potential for peace negotiations, lest post-conflict division and anger in the region further diminish prospects for peace.

With HAMAS in control of Gaza and Hizballah growing stronger in Lebanon, progress on a Palestinian- Israeli accord is growing more difficult. With Iran developing a nuclear weapon capability and Israel determined not to allow it, there is potential for an Iran-Israeli confrontation or crisis on that issue as well. Moderate Arab states fear a nuclear-armed Iran,

want progress on Palestinian settlement—the absence of which deprives US Arab allies of crucial political capital to defend strategic ties to the US and wish to sustain a moderate, state-centered politics for the region. Progress on the Israeli-Palestinian peace track would increase opportunities for the US to broaden its engagement with Arab publics, including those aligning with the growing ideology of Islamic nationalism.

- The Israeli public appears broadly supportive of Israel's military action and believes Israel must act decisively to prevent attacks from Palestinian-controlled territory. At the same time, Israel's military actions in Gaza have deepened Palestinian anger towards Israel, both in the Gaza Strip and in the West Bank, and sparked outrage and protests throughout the Arab and Muslim world.

- HAMAS and the Palestinian Authority are engaged in an intense competition, with both sides seeking to emerge from the conflict in a stronger political position, but relations between the two organizations have been further embittered by the crisis. The Palestinian Authority (PA) accused HAMAS of needlessly provoking an Israeli attack and HAMAS, which has argued it "won" by surviving the operation and continuing its control of Gaza, accused the PA of essentially collaborating with the Israeli assault.

- The moderate Arab states and regional hardliners are competing to shape the regional developments and public attitudes in the aftermath of the Gaza crisis. The moderates seek a reconciliation of the Palestinian factions and the resumption of peace talks between Israel and the Palestinians, while hardliners are encouraging HAMAS to retain its uncompromising stance toward Israel. These opposing regional blocs are competing to take the lead in delivering humanitarian aid to Palestinians in Gaza. Moderate states support US efforts to establish a ceasefire and border security regime that will prevent the rearming of HAMAS, while Iran is likely to lead an effort to provide weapons to HAMAS to build the group's military capabilities.

Tensions between **HAMAS and Fatah** have been elevated since HAMAS seized control of the Gaza Strip in June 2007, and efforts to achieve reconciliation have failed. Both factions continue to attack, harass, and detain members of the other group in the West Bank and the Gaza Strip, deepening mutual resentment and making an accord between them difficult. Reconciliation talks between Fatah and HAMAS scheduled for November in Cairo did not occur because HAMAS refused to attend the meetings, in part to protest ongoing PA security measures in the West Bank targeting its members.

- Disagreement between Fatah and HAMAS about a range of issues such as the timing of national elections and formation of a unity government could lead HAMAS to challenge the legitimacy of Abbas's government and will remain obstacles to Fatah-HAMAS reconciliation.

In 2008, longstanding tensions worsened between anti-democratic Fatah elements, mostly but not exclusively the so-called "old-guard" and typically younger elements demanding internal reforms within the faction, worsened in 2008 amid discussions over the location of and attendance at Fatah's long-delayed sixth General Congress. These internal conflicts threaten to

fracture the party and damage its prospects in the run-up to PA presidential and legislative elections in 2009 or early 2010. There is no consensus among Fatah officials regarding a replacement for President Abbas, who has not groomed a successor, and no potential leader has gained Fatah's full support.

In **Lebanon**, after a long stalemate, the political process showed some movement last year that reasserted a fragile consensus giving Hizballah and the opposition veto power in the Lebanese Government. The Doha Accord in May ended armed clashes between Hizballah and Lebanese civilians and 18 months of political stalemate. The accord also paved the way for the election of former Lebanese Armed Forces (LAF) Commander Michel Sulayman as President on 25 May 2008. Sulayman has positioned himself as a consensus-builder between the 14 March Coalition and the Hizballah-led opposition and has made progress on some issues, including forming the national unity cabinet, drafting the cabinet statement, and reforming the electoral law.

- The Lebanese political scene has enjoyed a period of relative calm and reconciliation since May, probably because all Lebanese parties are focused on preparing and forging alliances for the National Assembly election in June 2009. Lebanese Christian voters, divided between the two political camps, will be decisive in determining who wins a majority in the election.

The security situation remains fragile in Lebanon, especially in the north, which saw fighting between the Sunni and Alawi communities last summer. The Hizballah-initiated violence in May has left all sectarian groups—the Sunnis in particular—concerned about their security. The LAF's limited response and the Hizballah-led opposition's military strength have reinforced the view that sectarian communities must defend themselves. All sides are working to develop sectarian-based militia forces. Hizballah continues to bolster its military strength; since the 2006 war, the group has rearmed and trained additional personnel in preparation for possible future conflict with Israel.

Hizballah's attempts to reconcile with other Lebanese parties are an effort to show the group's commitment to a Lebanese nationalist agenda in preparation for the election. They are also meant to reduce the damage done to Hizballah's image by its armed takeover of parts of Beirut in May.

Since becoming President of **Syria** in June 2000, Bashar al-Asad has strengthened his hold on power in Syria. Asad's standing has been augmented by his perceived success in weathering regional crises and international pressure and by the regime's ability to highlight Syria's relative insulation from violence in Iraq and Lebanon. Within Syria, Asad has preserved the pillars of regime control established by his father while gradually using personnel turnover to appoint loyalists and expand his power base.

- Syrian leaders continue to exploit "resistance" to Israel and rejection of US pressure to unify Syrians in support of the regime, despite broad dissatisfaction with economic conditions, some disappointment at the lack of political reforms, and quiet resentment by some Sunnis at domination by the Alawi minority.

Damascus continues efforts to cement its influence in Lebanon by providing economic and other support to its allies in the Lebanese opposition. Syria has exploited its role in helping secure the May 2008 Doha agreement, which ended Lebanon's political violence last spring and ushered in a unity government, to improve relations with Europe and moderate Arab states. Syria is poised to appoint an ambassador to Lebanon, and we judge Syria will continue to interfere in Lebanese affairs in pursuit of its own interests.

Syrian military cooperation with Iran, including trilateral cooperation with Hizballah, has increased during the past year. Syria views its links to Iran as a means to press and deter adversaries, particularly Israel, and create leverage for achieving its major goals of a lead role in the Arab world, maintaining influence in Lebanon, and regaining the Golan Heights. For Syria's part, Iran has proven over the last quarter century to be Syria's most reliable ally. Shared interests over the past few years—support for Lebanese Hizballah, sustaining Palestinian terrorists, and countering US regional intentions—have drawn Iran and Syria toward a closer alliance. Syrian military support to Hizballah has increased substantially over the past five years, especially since the 2006 Israel-Hizballah war. Damascus also supports Palestinian rejectionist groups, such as HAMAS, which base their external leadership in Syria.

Syria probably will adjust its approach to the Iraq insurgency as Iraq's situation evolves. As the United States withdraws, we assess Damascus will seek improved political and economic ties to Baghdad and is likely to support oppositionists opposed to a long-term US presence in Iraq. Syria will remain the primary gateway for foreign fighters entering Iraq. Syria condemned the 26 October 2008 US raid that targeted AQI foreign fighter facilitator Abu Ghadiyah and staged a temporary removal of some border guard forces. Damascus also closed US institutions in Syria, including the Damascus Community School and the American Cultural Center.

A More Stable Iraq as Counterbalance

The positive security trends over the past year have endured and expanded, and a more stable Iraq could counterbalance other negative trends in the region. Extremists in Iraq have been largely sidelined by Coalition and Iraqi operations and dwindling popular tolerance for violence, and their attacks are no longer a major catalyst for sectarian violence. Iraqis now are less inclined to resolve their differences through unsanctioned violence, and fewer Iraqis are dying at the hands of their countrymen than at any time in the past two years. Indeed, communal violence is now at the lowest sustained levels since Prime Minister Nuri al-Maliki's government came to power. Improving security conditions in Iraq have given the Prime Minister an opportunity to assert authority in previously denied areas of the country. Meanwhile, the maturation of the Awakening movement, Iraqi Security Forces (ISF) gains, and the subsequent spread of Sons of Iraq groups, in combination with Coalition operations against AQI leaders, have weakened AQI by largely forcing it out of strongholds such as Al Anbar and much of greater Baghdad.

The main factors that have contributed to these positive trends are as follows:

- First, Coalition operations and population security measures have been critical to reducing violence in Iraq. We judge Coalition support in the form of a credible, politically neutral security guarantor also has facilitated the ISF's ability to deal with ethnosectarian issues.

- Second, the Sunni insurgency has continued to wane. Most Iraqi-led Sunni insurgent groups have largely suspended operations against the Coalition, favoring engagement with the United States to protect their communities, to oppose AQI, or protect against feared domination by the Iraqi Government, although many are hedging by maintaining their organizational structures and access to weapons.

- Third, the threat from AQI has continued to diminish. AQI, although still dangerous, has experienced the defection of members, lost key mobilization areas, suffered disruption of support infrastructure and funding, and been forced to change targeting priorities. Indeed, the pace of suicide bombings countrywide, which we consider one indicator of AQI's operational capability, fell significantly during the last year.

- Fourth, the threat of violence from most Shia militants has declined. Many Shia who looked upon Sadr's Jaysh al-Mahdi (JAM) in early 2008 as defenders against Sunni extremists eventually came to see the JAM as pariahs, leading Muqtada al-Sadr to announce last summer that most of his thousands-strong militia would set aside their weapons to become a cultural organization and a counterweight to Western influence. Some Shia militant groups such as Sadrist-affiliated groups and Kata'ib Hizballah (KH) probably will continue anti-Coalition attacks and may engage in sporadic violence against Iraqi Government targets.

- Lastly, the capabilities of the ISF have continued to improve. The ISF's increasing professionalism and improvements in warfighting skills have allowed it to assume more responsibility for Iraq's internal security, as demonstrated by the successful operations against Shia militants in Al Basrah, Sadr City, and Al 'Amarah, and against Sunni extremists in Diyala and Mosul. Despite these improvements, the ISF remains dependent on the US for enabling capabilities such as logistics, fire support, and intelligence.

We assess political and security progress could be halted or even reversed by a number of factors, particularly if these challenges occur in combination.

- *Disputed internal boundaries.* Resolving disputed boundaries, primarily in northern Iraq, probably will be the most fiercely contested political issue to face Iraq in the next several years and poses the greatest threat to government stability.

- *Perceptions of Iraqi Government repression.* Policies or actions of the Iraqi Government perceived by segments of Iraq's ethnosectarian population to represent a broad and enduring campaign of repression could lead to widespread violence.

- *Increased foreign support to insurgent or militia groups.* We judge a large infusion of foreign support could deepen and intensify the ensuing conflict if Iraqi militants and insurgents sought external assistance to challenge or destabilize the Iraqi Government.

In addition to these challenges, Baghdad will confront more difficult choices about spending priorities as a result of declining oil revenues as it simultaneously grapples with security force modernization, infrastructure investment, and expanding public payrolls. Iraq's

economy will continue to depend heavily on hydrocarbon exports, government spending, and continued security improvements.

We judge Iran will expand political and economic ties to Baghdad and will continue to supply weapons and training to Shia militants to counter a Sunni resurgence, maintain leverage in Iraq, and keep pressure on US forces. Iraqi nationalism, however, acts as a check on Iran's ability to project power in Iraq. Syria will focus on improving relations with Baghdad and seek increased trade and energy exports but also will continue to support Ba'thists and other non-AQI Sunni oppositionists to try to gain leverage in Iraq. Turkey will continue to focus on countering the Kurdistan People's Congress, a Kurdish terrorist group based in northern Iraq. The Turkish military continues to conduct cross-border air and artillery strikes in northern Iraq against the Kurdistan People's Congress (KGK, formerly PKK), a Kurdish terrorist organization waging armed conflict against Turkey. The KGK appears to retain the desire to attack Turkish targets. In early October 2008, the KGK launched an attack on a Turkish military outpost that left 17 Turkish troops dead.

- Turkish officials met with Kurdistan Regional Government President Barzani in October 2008, opening the prospect of closer ties between Turkey and the KRG. Like the rest of Europe, the Turkish economy is feeling the effects of the global financial crisis. In mid-November, Standard and Poor's downgraded Turkey's credit outlook from stable to negative.

Iraq's Sunni Arab neighbors are starting to reestablish an Arab presence in Baghdad, but Arab engagement is likely to be slow and halting over the next year. Jordan's King Abdallah in August became the first Arab head of state to travel to Baghdad since the fall of Saddam; he dispatched an Ambassador to Iraq in October.

Afghan-Pakistani Linkages

In the past year, **Afghanistan's** Taliban-dominated insurgency has increased the geographic scope and frequency of attacks. Taliban reaction to expanded Afghan and NATO operations account for some of the increase in violence, but insurgents also have demonstrated greater aggressiveness and more lethal tactics. Efforts to improve governance and extend development were hampered in 2008 by a lack of security in many areas and a general lack of government capacity and competency. The ability of the Afghan government, NATO, and the United States to push back the Taliban and deliver security, basic governance, and economic development will determine the continued support of the Afghan people for the government and the international community. Afghan leaders also must tackle endemic corruption and an extensive drug trade, which erode the capacity of the government while diminishing public confidence in its already fragile institutions.

Specifically, the security situation has deteriorated in many eastern areas of the country and in the south and northwest. Taliban and affiliated insurgent groups have expanded operations into previously peaceful areas of the west and around Kabul. The Taliban-dominated insurgency has expanded in scope despite International Security Assistance Force (ISAF) and Operation Enduring Freedom military operations targeting insurgent command and control networks.

Continued progress has been made in expanding and fielding the Afghan National Army, but the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of independent action. The Afghan National Police remains a largely untrained force with high rates of corruption and absenteeism. Limitations to training, mentoring, and equipping combined with an ineffective Ministry of Interior and large parts of the country that have not been effectively "cleared" hinder the progress and effectiveness of the policy.

Kabul in 2009 must work closely with the national legislature and provincial and tribal leaders to establish and extend the capacity of the central and provincial government. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level. In addition, continued attacks undercut the national government's image as a viable guarantor of security, persuading tribal and other influential non-state actors to either remain neutral or back insurgents. The 2009 presidential election will present a greater security challenge than the 2004 election, and the insurgents probably will make a concerted effort to disrupt it.

Kabul's inability to build effective, honest, and loyal provincial and district level institutions capable of providing basic services and sustainable, licit livelihoods erodes its popular legitimacy and increases the influence of local warlords and the Taliban. The Afghan government has launched some initiatives, such as the Independent Directorate of Local Governance (IDLG), to address governance shortcomings, but corruption has exceeded culturally tolerable levels and is eroding the legitimacy of the government. Both law enforcement and judicial capacity, although somewhat improved, remain limited, and Kabul remains constrained in its ability to deploy programs at the provincial and local levels.

The Afghan government has no coherent tribal engagement strategy, but where Pashtun tribal and government interests intersect, gains in local security, stability, and development are possible. At the provincial level, governors who have proven themselves effective mediators of local disputes among tribes and other local groups in their respective jurisdictions garner support from Afghan audiences and the donor community.

The Afghan drug trade is a major source of revenue for corrupt officials, the Taliban and other insurgent groups operating in the country and is one of the greatest long-term challenges facing Afghanistan. The insidious effects of drug-related criminality continue to undercut the government's ability to assert its authority outside of Kabul, to develop a strong, rule-of-law based system, and to rebuild the economy. Despite decreases in poppy cultivation in 2008, opium production in Afghanistan remains historically high, and the country produces over 90 percent of the world's supply with 95 percent of the crop grown in five contiguous provinces of southwestern Afghanistan and over 60 perce3nt in one province alone, Helmand. In 2008, farmers grew 157,300 hectares of poppy, potentially producing an estimated 7,700 metric tons of opium. Almost every province outside the southwest was either poppy-free or had a dramatic decrease in cultivation, due to a combination of effective local anti-poppy campaigns, better security unfavorable weather, and decreased opium prices relative to other crops, and improved governance and security in key provinces. The United Nations estimates that the total value to agricultural producers of Afghan opium in 2008 was $730 million—although the gap in

profitability has narrowed. No improvement in the security in Afghanistan is possible without progress in Pakistan.

No improvement in Afghanistan is possible without **Pakistan** taking control of its border areas and improving governance, creating economic and educational opportunities throughout the country. The government is losing authority in parts of the North-West Frontier Province and has less control of its semi-autonomous tribal areas: even in the more developed parts of the country, mounting economic hardships and frustration over poor governance have given rise to greater radicalization.

In 2008 Islamabad intensified counterinsurgency efforts, but Islamabad's record in dealing with militants has been mixed as it navigates conflicting internal and counterterrorist priorities. Pakistan's leaders are facing enormous socio-economic challenges. Economic hardships are intense, and the country is now facing a major balance of payments challenge. Islamabad needs to make painful reforms to improve overall macroeconomic stability. Pakistan's law-and-order situation is dismal, affecting even Pakistani elites, and violence between various sectarian, ethnic, and political groups threatens to escalate. Pakistan's population is growing rapidly at a rate of about 2 percent a year, and roughly half of the country's 172 million residents are illiterate, under the age of 20, and live near or below the poverty line. Among the needed reforms are measures to improve the transparency of government expenditures and impose taxes on wealthy landowners. Such reforms would reduce the opportunities for corruption among Pakistani political leaders, help to establish a more level political playing field, and help build the confidence of average Pakistanis in their government.

The Pakistani Government's current plans will require intensified and sustained efforts to orchestrate the administrative, economic, educational, legal, and social reforms required to create an environment that discourages Islamic extremism and encourages the development of human capital. This, in turn, requires effective political leadership focused on improving the capabilities of Pakistani institutions for effective governance.

WMD Proliferation Exacerbating Prospects for Middle East

The ongoing efforts of nation-states to develop and/or acquire dangerous weapons and delivery systems in the Middle East and elsewhere constitute another major threat to the safety of our nation, our deployed troops, and our allies. (The threat posed by North Korea's WMD program is assessed below, in the section on Asia.) We are most concerned about the threat and destabilizing effect of nuclear proliferation. The threat from the proliferation of materials and technologies that could contribute to both existing and prospective biological and chemical weapons programs also is real. Most of the international community shares these concerns.

WMD use by most nation states traditionally has been constrained by the logic of deterrence and by diplomacy, but these constraints may be of less utility in preventing the use of mass-effect weapons by terrorist groups. Moreover, the time when only a few states had access to the most dangerous technologies is long over. Technologies, often dual-use, circulate easily in our globalized economy, as do the personnel with scientific expertise who design and use them. Therefore, it is difficult for the United States and its partners to track efforts to acquire components and production technologies that are widely available.

We assess countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. Nuclear, chemical, and/or biological weapons or the production technologies and materials necessary to produce them may also be acquired by states that do not now have such programs; and/or by terrorist or insurgent organizations; and by criminal organizations, acting alone or through middlemen.

Iranian Nuclear and Missile Programs. The Iranian regime continues to flout UN Security Council restrictions on its nuclear programs. There is a real risk that its nuclear program will prompt other countries in the Middle East region to pursue nuclear options conducive to the development of nuclear weapons, and the advent of additional nuclear weapons programs might lead countries in other regions to reassess their nuclear options.

I want to be very clear in characterizing the Iranian nuclear program. First, there are three key parts to an effective nuclear weapons capability:

(1) Production of fissile material,
(2) Effective means for weapon delivery, and
(3) Design, weaponization, and testing of the warhead itself.

We assessed in our 2007 NIE on this subject that Iran's nuclear weapon design and weaponization work was halted in fall 2003, along with its covert uranium conversion and enrichment-related activities. Declared uranium enrichment efforts were suspended in 2003 but resumed in January 2006 and will enable Iran to produce weapons-usable fissile material if it chooses to do so. Development of medium-range ballistic missiles, inherently capable of delivering nuclear weapons, has continued unabated.

We assess Iranian military entities were working under government direction to develop nuclear weapons until fall 2003. Iranian entities are continuing to develop a range of technical capabilities that could be applied to producing nuclear weapons, if a decision were made to do so.

- Iran continues its efforts to develop uranium enrichment technology, which can be used both to produce low-enriched uranium for power reactor fuel and to produce highly enriched uranium for nuclear weapons.

- As noted, Iran continues to deploy and improve ballistic missiles inherently capable of delivering nuclear weapons.

- We assess Iran since fall 2003 has conducted research and development projects with commercial and conventional military applications, some of which would be of limited use for nuclear weapons.

We judge in fall 2003 Tehran halted its nuclear weapons design and weaponization activities and that the halt lasted at least several years. We assess Tehran had not restarted these activities as of at least mid-2007. Although we do not know whether Iran currently intends to

develop nuclear weapons, we assess Tehran at a minimum is keeping open the option to develop them.

We judge the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work. This indicates Iran may be more susceptible to influence on the issue than we had judged in the 2005 National Intelligence Estimate.

We do not have sufficient intelligence reporting to judge confidently whether Tehran is willing to maintain indefinitely the halt of its previously enumerated nuclear weapons-related activities while it weighs its options, or whether it will or already has set specific deadlines or criteria that will prompt it to restart those activities. We assess Iran has the scientific, technical, and industrial capacity eventually to produce nuclear weapons. In our judgment, only an Iranian political decision to abandon a nuclear weapons objective would plausibly keep Iran from eventually producing nuclear weapons—and such a decision is inherently reversible. I reiterate that two activities of the three relevant to a nuclear weapons capability continue: development of uranium enrichment technology that will enable production of fissile material, if Iran chooses to do so, and development of nuclear-capable ballistic missile systems.

We assess convincing the Iranian leadership to forgo the eventual development of nuclear weapons will be difficult given the linkage many within the leadership see between nuclear weapons and Iran's key national security and foreign policy objectives, and given Iran's considerable effort from at least the late 1980s to 2003 to develop such weapons. Our analysis suggests that some combination of threats of intensified international scrutiny and pressures, along with opportunities for Iran to achieve its security and goals might—if perceived by Iran's leaders as credible—prompt Tehran to extend the halt to the above nuclear weapons-related activities. It is difficult to specify what such a combination might be.

We continue to assess Iran does not currently have a nuclear weapon. We continue to assess Iran probably has imported at least some weapons-usable fissile material but still judge it has not obtained enough for a nuclear weapon. We cannot rule out that Iran has acquired from abroad or will acquire in the future a nuclear weapon or enough fissile material for a weapon. Barring such acquisitions, if Iran wants to have nuclear weapons it would need to produce sufficient amounts of fissile material indigenously. We judge it has not yet done so.

Iran made significant progress in 2007 and 2008 installing and operating centrifuges at its main centrifuge enrichment plant, Natanz. We judge Iran probably would be technically capable of producing enough highly enriched uranium (HEU) for a weapon sometime during the 2010-2015 time frame. INR judges Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems.

Iranian Missile Threat. Beyond its WMD potential, Iranian conventional military power threatens Persian Gulf states and challenges US interests. Iran is enhancing its ability to project its military power, primarily with ballistic missiles and naval power, with the goal of dominating the Gulf region and deterring potential adversaries. It seeks a capacity to disrupt the operations and reinforcement of US forces based in the region, potentially intimidating regional allies into

withholding support for US policy, and raising the political, financial, and human costs to the United States and our allies of our presence.

- Iran's growing inventory of ballistic missiles—it already has the largest inventory in the Middle East—and its acquisition of anti-ship cruise missiles provide capabilities to enhance its power projection. Tehran views its conventionally armed missiles as an integral part of its strategy to deter and if necessary retaliate against forces in the region, including US forces. Its ballistic missiles are inherently capable of delivering WMD and if so armed would fit into this same strategy.

The Terrorist CBRN Threat. Over the coming years, we will continue to face a substantial threat, including in the US Homeland, from terrorists attempting to acquire biological, chemical, and possibly nuclear weapons and use them to conduct large-scale attacks. Conventional weapons and explosives will continue to be the most often used instruments of destruction in terrorist attacks; however, terrorists who are determined to develop CBRN capabilities will have increasing opportunities to do so, owing to the spread of relevant technological knowledge and the ability to work with CBRN materials and designs in safehavens.

- Most terrorist groups that have shown some interest, intent, or capability to conduct CBRN attacks have pursued only limited, technically simple approaches that have not yet caused large numbers of casualties.

In particular, we assess the terrorist use of biological agents represents a growing threat as the barriers to obtaining many suitable starter cultures are eroding and open source technical literature and basic laboratory equipment can facilitate production. Terrorist chemical attacks also represent a substantial threat. Small-scale chemical attacks using industrial toxins have been the most frequent type of CBRN attack to date. The chlorine attacks in Iraq from October 2006 through the summer of 2007 highlighted terrorist interest in using commercial and easily available toxic industrial chemicals as weapons.

Al-Qa'ida is the terrorist group that historically has sought the broadest range of CBRN attack capabilities, and we assess that it would use any CBRN capability it acquires in an anti-US attack, preferably against the Homeland. There also is a threat of biological or chemical attacks in the US Homeland by lone individuals.

Rising Asia

As the terrorism and proliferation threats persist across the "arc of instability," East and South Asia are poised to become the long-term power center of the world. China and India are restoring the positions they held in the eighteenth century when China produced approximately 30 percent and India 15 percent of the world's wealth. These two countries are likely to surpass the GDP of all other economies except the United States and Japan by 2025, although the current financial crisis may somewhat slow the momentum. Japan remains the second largest global

economy and a strong US ally in the region, but the global economic slowdown is exacting a heavy toll on Japan's economy. To realize its aspirations to play increased regional and global roles will require strong leadership and politically difficult decisions. All together—Japan, the "tiger" economies like South Korea and Taiwan as well as the rising giants of China and India point to the "rise of Asia" as a defining characteristic of the 21st century. China's reemergence as a major power with global impact is especially affecting the regional balance of power.

As in the Middle East, the United States has strong relationships in East Asia—a network of alliances with Japan, South Korea, the Philippines, Thailand, and Australia, and close partnerships with other countries—and a longstanding forward military presence. Countries in the region look to the United States for leadership and for ways to encourage China to become a constructive and responsible player in the regional and global communities. Although China will have ample opportunity to play a positive role, it also poses a potential challenge if it chooses to use its growing power and influence in ways counter to US or broader international interests.

China's Transformation

China is thirty years into a fundamental transformation that will take many more decades to complete. Although there have been moments when the government's effort to maintain control seemed on the verge of failure—notably the crisis on Tiananmen Square in 1989—the government has been remarkably successful in guiding reform. China has avoided the fate of most other socialist countries, suffering neither the economic and political collapse of the Soviet Union nor the stagnation of Cuba and North Korea.

We judge China's international behavior is driven by a combination of domestic priorities, primarily maintaining economic prosperity and domestic stability, and a longstanding ambition to see China play the role of a great power in East Asia and globally. Chinese leaders view preserving domestic stability as one of their most important internal security challenges. Their greatest concerns are separatist unrest and the possibility that local protests could merge into a coordinated national movement demanding fundamental political reforms or an end to Party rule. Security forces move quickly and sometimes forcefully to end demonstrations. The March 2008 protests in Tibet highlighted the danger of separatist unrest and prompted Beijing to deploy paramilitary and military assets to end the demonstrations.

These same domestic priorities are central to Chinese foreign policy. China's desire to secure access to the markets, commodities, and energy supplies needed to sustain domestic economic growth significantly influences its foreign engagement. Chinese diplomacy seeks to maintain favorable relations with other major powers, particularly the US, which Beijing perceives as vital to China's economic success and to achieving its other strategic objectives. But Beijing is also seeking to build its global image and influence in order to advance its broader interests and to resist what it perceives as external challenges to those interests or to China's security and territorial integrity.

Taiwan as an area of tension in US-China relations has substantially relaxed since the 2008 election of Ma Ying-jeou. The new Taiwanese President inaugurated in May has resumed dialogue with Beijing after a nine-year hiatus, and leaders on both sides of the Taiwan Strait are now cautiously optimistic that a new period of less confrontational relations has begun. Many

outstanding challenges remain, however, and the two sides eventually will need to confront issues such as Taiwan's participation in international organizations. Beijing has not renounced the use of force against the island, and China's leaders see maintaining the goal of unification as vital to regime legitimacy.

PLA Modernization

Preparations for a possible Taiwan conflict continue to drive the modernization goals of the People's Liberation Army (PLA) and the Chinese defense-industrial complex. It will likely remain the primary factor as long as the Taiwan situation is unresolved.

At the same time, we judge that China over the past several years has begun a substantially new phase in its military development by beginning to articulate roles and missions for the PLA that go well beyond China's immediate territorial interests.

- For example, China's leaders may decide to contribute combat forces to peacekeeping operations, in addition to expanding the current level of command and logistic support.

- China's national security interests are broadening. This will likely lead China to attempt to develop at least a limited naval power projection capability extending beyond the South China Sea. This already has been reflected in Beijing's decision in December to participate in anti-piracy operations off the coast of Somalia.

Missile Capability. China continues to develop and field conventional theater-range ballistic and cruise missile capabilities that can reach US forces and regional bases throughout the Western Pacific and Asia, including Guam. China also is developing conventionally armed short- and medium-range ballistic missiles with terminally guided maneuverable warheads that could be used to attack US naval forces and airbases. In addition, counter-command, control, and sensor systems, to include communications satellite jammers, are among Beijing's highest military priorities.

Counterspace Systems. China continues to pursue a long-term program to develop a capability to disrupt and damage critical foreign space systems. Counterspace systems, including antisatellite (ASAT) weapons, also rank among the country's highest military priorities.

Nuclear Capability. On the nuclear side, we judge Beijing seeks to modernize China's strategic forces in order to address concerns about the survivability of those systems in the face of foreign, particularly US, advances in strategic reconnaissance, precision strike, and missile defenses. We assess China's nuclear capabilities will increase over the next ten years.

Indian Pragmatism

Like China, India's expanding economy will lead New Delhi to pursue new trade partners, gain access to vital energy markets, and generate the other resources required to sustain rapid economic growth. To sustain rapid growth, Indian governments also must maintain the political support for economic reforms needed to drive the expanding economy.

On the global stage, Indian leaders will continue to follow an independent course characterized by economic and political pragmatism. New Delhi will not automatically support

or oppose positions favored by the United States or any other major power. Nonetheless, good relations with the United States will be essential for India to realize its global ambitions. Indian leaders will seek benefits from American influence, trade, and technology. Strong ties to Washington also will give India more confidence in dealing with China and in mitigating the dangers posed by its long-time adversary, Pakistan. However, Indian leaders often will adopt positions contrary to those favored by Washington. India will be concerned about China during the coming decade because of Beijing's political and economic power and its ability to project military force regionally, but Indian leaders will strive to avoid confrontation with China.

Indian-Pakistan Relations. Within South Asia, one of the world's least integrated regions, India will strive to manage tensions with Pakistan, transnational terrorism, and spillover from instability in small neighboring states. Determined efforts by Indian and Pakistani leaders to improve relations through the so-called Composite Dialogue over the last four years could unravel unless Islamabad takes sustained, concrete, meaningful steps to allay Indian concerns about Islamabad's support to anti-Indian militant groups. This is the case particularly in light of the November 2008 terrorist attack in Mumbai. The attack has convinced many Indians that Pakistani military leaders, in an effort to undercut India's emerging international stature, now favor a strategy of allowing Pakistan-based groups to attack targets that symbolize New Delhi's growing prominence on the global stage or that could undermine India's prominence by provoking religious violence in the country. In the absence of a military response against Islamabad, the Indian public will look for visible signs that Pakistan is actively working to punish those involved and eliminate its domestic terrorist organizations. Pakistan-based groups could carry out additional attacks against India and run the risk of provoking an India-Pakistan conflict. In addition, India, which has endured a series of major terrorist attacks without major military response since 2003, is under domestic pressure to make rapid and significant improvements in its counterterrorism capabilities.

India also will look for ways to safeguard its interests in light of the concluding civil war in Sri Lanka and political uncertainty in Bangladesh and Nepal, which have experienced dramatic transformations in government during the past year. New Delhi generally will be supportive of democratic forces in its smaller neighbors, while also being sensitive to the opinions of the Tamil and Bengali communities within India.

North Korea's Nuclear Ambitions

In addition to a possible India-Pakistan conflict, Pyongyang's nuclear ambitions and proliferation behavior threaten to destabilize East Asia. The North's October 2006 nuclear test is consistent with our longstanding assessment that it had produced a nuclear device. Prior to the test, we assessed that North Korea produced enough plutonium for at least a half dozen nuclear weapons. The IC continues to assess North Korea has pursued a uranium enrichment capability in the past. Some in the Intelligence Community have increasing concerns that North Korea has an ongoing covert uranium enrichment program.

Pyongyang probably views its nuclear weapons as being more for deterrence, international prestige, and coercive diplomacy than for warfighting and would consider using nuclear weapons only under certain narrow circumstances. We also assess Pyongyang probably

would not attempt to use nuclear weapons against US forces or territory unless it perceived the regime to be on the verge of military defeat and risked an irretrievable loss of control.

Progress was made, albeit painstakingly, last year in Six Party Talks; the DPRK has shut down three core facilities at Yongbyon and has completed eight of the eleven disablement steps. However, much work remains. At the latest round of talks held in December in Beijing, the DPRK refused to agree to a Six Party verification protocol needed to verify the completeness and correctness of its nuclear declaration. Since then, Pyongyang has issued hardline statements suggesting further challenges to denuclearization.

On the proliferation side, North Korea has sold ballistic missiles and associated materials to several Middle Eastern countries, including Iran, and, in our assessment, assisted Syria with the construction of a nuclear reactor. We remain concerned North Korea could again export nuclear technology. In the October 3 Second Phase Actions agreement, the DPRK reaffirmed its commitment not to transfer nuclear materials, technology, or know-how. We assess Pyongyang is less likely to risk selling nuclear weapons or weapons-quantities of fissile material than nuclear technology or less sensitive equipment to other countries or non-state actors, in part because it needs its limited fissile material for its own deterrent. Pyongyang probably also perceives that it would risk a regime-ending military confrontation with the United States if the nuclear material was used by another country or group in a nuclear strike or terrorist attacks and the United States could trace the material back to North Korea. It is possible, however, that the North might find a nuclear weapons or fissile material transfer more appealing if its own stockpile grows larger and/or it faces an extreme economic crisis where the potentially huge revenue from such a sale could help the country survive.

We assess that poor economic conditions are fueling systemic vulnerability within North Korea. Public statements by the regime emphasize the need for adequate food supplies. A relatively good fall harvest in 2008, combined with the delivery of substantial US food aid—500,000 tons of grain have been promised and about one-third of this has been delivered—probably will prevent deterioration in the food security situation during the next few months. However, we assess North Korea is still failing to come to grips with the economic downturn that began in the early 1990s and that prospects for economic recovery remain slight. In addition to food, shortages in fertilizer and energy continue to plague the economy. Investment spending appears is negligible, trade remains weak, and we see little progress toward economic reforms. Pyongyang has long been in default on a relatively large foreign debt and we assess that badly needed foreign investment will not take place unless the North comes to terms with its international creditors and conforms to internationally accepted trade and financial norms, badly needed foreign investment will not take place.

- Pyongyang's strategic posture is not helping its economy. Trade with Japan has fallen precipitously since the nuclear and missile tests of 2006, and, while commercial trade with South Korea rose in 2008, South Korean aid and tourism to the North declined due to increased North-South tensions.

Despite this poor economic performance and the many privations of the North Korean public, we see no organized opposition to Kim Jong Il's rule and only occasional incidents of

social disorder. Kim probably suffered a stroke in August that incapacitated him for several weeks, hindering his ability to operate as actively as he did before the stroke. However, his recent public activities suggest his health has improved significantly, and we assess he is making key decisions. The state's control apparatus by all accounts remains strong, sustaining the dismal condition of human rights in North Korea.

Growing Challenges in Russia and Eurasia

Russian challenges to US interests now spring more from Moscow's perceived strengths than from the state weaknesses characteristic of the 1990s. US involvement in Iraq and Afghanistan and general anti-Americanism have created openings for Russia to build alternative arrangements to the US-led international political and economic institutional order. Russia is actively cultivating relations with regional powers, including China, Iran, and Venezuela to increase its ability to influence events. Moscow also is trying to maintain control over energy supply and transportation networks to Europe to East Asia, and protect and further enhance its market share in Europe through new bilateral energy partnerships and organizing a gas cartel with other major exporters. Russia appears to believe the continued heavy dependence of European countries and former Soviet states on Russia's state gas monopoly, Gazprom, provides Moscow with political and economic leverage.

Russia continues to rely on its nuclear deterrent and retaliatory capability to counter the perceived threat from the United States and NATO. Moscow for the past several years has also been strengthening its conventional military force to make it a credible foreign policy instrument, both to signal its political resurgence and to assert its dominance over neighboring states, like Georgia. Moscow has actively engaged in foreign military cooperation with countries such as China and Venezuela, in part to remind the United States and others of Russia's global military relevance. Despite persistent challenges, including a long-term decline in the numbers and quality of recruits and difficulties in keeping pace with the demands of weapons modernization, the Russian military defeated the Georgian military last August.

Russian leaders recently have spoken positively about the possibilities for change in the US-Russia dynamic, but issues such as NATO enlargement, the conflict over Georgia's separatist regions, and Missile Defense will continue to pose difficulties for the relationship and underscore the challenges of finding ways to engage with Russia. Even as it seeks to negotiate a robust post-START agreement, Moscow consistently stresses that the accession to NATO of Georgia and Ukraine would put existing arms control regimes and negotiations at risk and could prompt Russian military countermeasures as well as increased pressure against Tbilisi and Kyiv. Russia's strong engagement with countries like Iran and Syria, including advanced weapons sales, also has implications for US nonproliferation interests.

Eurasia/Caucasus/Central Asia

Six months after the fighting between Russia and Georgia over Abkhazia and South Ossetia last August, the separatist regions remain potential flashpoints. Moscow's expanded military presence in and political-economic ties to these regions, along with continuing violence increase the risk of provocation, overreaction, or miscalculation leading to a resumption of fighting. Although the political situation in Georgia has stabilized, President Saakashvili faces

increasing criticism from the domestic opposition, and his reaction to that will either enhance or set back Georgia's democratic development.

The continued difficulty of bridging fundamental differences between Azerbaijan and Armenia over Nagorno-Karabakh will also keep tensions high in the Caucasus. Azerbaijan fears isolation in the wake of Kosovo's independence, Russia's recognition of South Ossetia and Abkhazia, and signs of improved Armenian-Turkish relations. Armenia is concerned about Baku's military buildup and does not want to become dependent on Russia. Both countries face the dual challenges of overcoming inertia in democratic reforms and battling endemic corruption in the face of an economic downturn.

An increasingly assertive Russia and the fallout from the global financial crisis will combine to amplify the challenges facing Ukraine as it heads for a presidential election in Winter 2009-2010. Ukraine has moved toward democracy and Western integration despite numerous political tests since independence. Progress will be difficult because of weak political institutions, ongoing conflicts with Russia over gas pricing and contracts and the new exigencies of the global financial crisis, which has dramatically revealed the underlying weaknesses of the Ukrainian economy and potentially Ukraine's stability.

In Belarus, the Lukashenko regime appears willing to cooperate with Russian efforts to counter US missile defense plans with Prague and Warsaw. However, Russia's continuing efforts to control key Belarusian economic sectors could prompt Minsk to improve ties with the West to balance Moscow. Lukashenko maintains an authoritarian grip on power and could return to repressive measures if public discontent over the worsening economy turns to protest.

The five Central Asian states—Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan—with their highly-personalized politics, weak institutions, and growing inequalities are ill-equipped to deal with the challenges posed by Islamic violent extremism, poor economic development, and problems associated with energy water and food distribution. Energy helped make Kazakhstan a regional economic force, but any sustained decline in oil prices would affect revenues, could lead to societal discontent, and will derail the momentum for domestic reforms. Tajikistan and Kyrgyzstan have heavily depended on migrant worker remittances from both Russia and Kazakhstan for a significant portion of their gross domestic product—up to 45 percent in the case of Tajikistan—and will be severely affected by the financial crisis. Tajikistan, in particular, faces increased threats to internal stability from the loss of these critical revenue streams. Ultimately, these challenges to regional stability could threaten the security of critical US and NATO lines of communication to Afghanistan through Central Asia.

The Balkans

Events in the Balkans will again pose the greatest threat of instability in Europe in 2009, despite positive developments in the last year that included Kosovo's peaceful declaration of independence from Serbia, the election of pro-EU leaders in Serbia, and offers of NATO membership to Croatia and Albania. The principal challenges to stability will come from the unresolved political status of the Serb minority in Kosovo, particularly in northern Kosovo, and Bosnia-Herzegovina's (BiH) continuing uneasy inter-ethnic condominium.

More than 50 nations, including 22 of 27 EU members, have recognized the new state of **Kosovo**. In the coming years Pristina will depend on the international community for economic and development assistance and to ensure Kosovo's territorial integrity. Belgrade openly supports parallel Kosovo Serb institutions. It has used political and legal means to challenge and undermine Pristina's sovereignty and to limit the mandate of the EU's Rule of Law mission (EULEX) in Kosovo, which is meant to help Kosovo authorities build multi-ethnic police, judiciary, and customs systems. This has reinforced the de facto separation of Kosovo into an Albanian-majority south and a Serb-majority north and frustrated the Kosovo Albanians. Kosovo Force's (KFOR) presence will help deter widespread violence, however. **Serbia's** leaders espouse a European future, and President Tadic desires quick progress toward EU membership, but they are unwilling to abandon Belgrade's stake in Kosovo to achieve that end. Belgrade still looks for Moscow's diplomatic support on this issue and recently concluded a significant energy deal with Moscow, including sale of a majority stake in its state oil refinery.

Bosnia's future as a multi-ethnic state remains in doubt, although neither widespread violence nor a formal split is imminent. Ethnic agendas still dominate the political process, and wrangling among the three main ethnic groups over the past 18 months has stalled the process of building a central government capable of taking the country into NATO and the EU. Threats of secession by Bosnian Serb leaders and calls by some Bosniak leaders to eliminate the Bosnian Serb entity have increased inter-ethnic tensions to perhaps the highest level in years.

Testing Times for Latin America

Latin American economies, following five consecutive years of solid performance, are feeling the repercussions from the global financial crisis. We expect the region's growth rate will fall substantially this year to about 1 percent from 4 percent for 2008. Exports from the region have averaged 20 percent growth for five years, but falling commodity prices and slowdowns in major industrial markets have sharply reduced export growth in the fourth quarter of 2008 and into 2009. Foreign direct investment flows through mid-year 2008 were on pace to reach the record level of $110 billion in 2007, but are likely to have diminished in late 2008 and probably will continue to do so in 2009. Finally, after 10 years of worker remittances growing at an average annual rate of better than 15 percent, remittances grew just 7 percent in 2007 and grew only 1 to 2 percent in 2008.

Democracy in much of Latin American has established impressive roots over the past decade or so. In countries that comprise the bulk of the region's GDP and population—like Brazil, Chile, Colombia, Mexico, and Peru—pro-market policies have yielded important economic dividends that help fortify democratic gains. Brazil is becoming a leading regional power and, along with others like Argentina and Chile, is trying to promote greater South American integration

Developments in the last year, however, underscore the challenge that populist, often-autocratic regimes still pose in the region. Venezuela attracts substantial, if declining, regional popular support, but its influence is likely to diminish as its economic problems mount. Cuba, though an economic basket case, can still influence the Latin American left because of its so-called "anti-imperialist" stance. Others like Bolivia, and to a lesser extent Argentina and

Ecuador, have embraced populist policies and are likely to also lag behind. Some, such as Haiti, have become even poorer and still less governable. Basic law-and-order issues, to include rising violent crime and powerful drug trafficking organizations also confront key hemispheric nations, as do uneven governance and institution-building efforts and performance in confronting chronic corruption. To maintain our political and economic influence in the region, the United States will be called upon to help the region's governments address their growing security problems and to deliver greater market access. Our use of bilateral trade agreements, and foreign aid through the Millennium Challenge Account to less developed countries, helps cement sound economic policies and more effective governance.

As in Africa (see below), China has increased its outreach to Latin America in recent years, primarily in pursuit of access to markets and resources to fuel its economic development and growth. This is boosting Chinese economic and diplomatic influence in the region, and generating questions about Beijing's long-term intention in the developing world—potentially as an alternative development model. Beijing's military engagement in the region—while secondary to its economic and political engagement efforts—also facilitates access to strategic natural resources. People's Liberation Army outreach activities in Latin America have included high-level strategic dialogue, personnel exchanges, and sales of weapons and equipment. Nonetheless, Beijing has made few arms sales to the region, outside of Venezuela, nor developed significant military-to-military ties with any countries. For its part, Tehran has made some progress over the last few years in improving commercial ties and establishing embassies and cultural centers in Latin America, with an aim to reducing Iran's international isolation. Hizballah has long maintained a presence in the tri-border region between Argentina, Brazil and Paraguay, a notorious region for narcotics and arms trafficking.

Mexico

Mexico's sound fiscal and monetary policies will probably provide some insulation from the current global economic volatility. With 80 percent of its exports destined for US consumers and low international oil prices, however, Mexico would take a strong hit from a prolonged US recession. Mexico's Finance Secretariat cut growth estimates for 2008 to 1.5 percent, and Finance Minister Carstens has openly acknowledged growth might contract by a percentage point this year. Mexico last experienced a fall in GDP in 2001. Unemployment late last year was almost 4.5 percent, up a point from 2007 and underemployment is even higher. Employment in the construction sector dropped more than 4 percent in the same time period, according to Mexico's National Statistics Institute.

The sharp economic downturn as yet shows no sign of hurting Mexico's debt posture or spurring northward migration. Mexico's National Statistics Institute late last year indicated that Mexican emigration had dropped 42 percent since 2006, probably due to the decreased demand for labor in the United States. That trend probably will lead to declines in remittances, the second largest source of foreign currency after oil exports, and increase pressure on the government to create jobs.

Mexico remains the most important conduit for illicit drugs reaching the United States. As much as 90 percent of that cocaine known to be directed toward the United States, and some Colombian heroin, eventually transits Mexico before entering the United States. Despite recent

successful efforts to counter precursor chemical diversion and drug trafficking, Mexico is the chief foreign supplier of methamphetamine and marijuana to the US market and produces most of the heroin consumed west of the Mississippi River. The corruptive influence and increasing violence of Mexican drug cartels, which are among the most powerful organized crime groups in the world, impede Mexico City's ability to govern parts of its territory and build effective democratic institutions.

Nearly 5,500 people—mostly cartel operatives and to a lesser degree local police—were murdered in 2008 in cartel-related violence, far exceeding the record of about 2,700 drug-related murders in 2007. Also, the cartels have shown their willingness and capacity to strike Mexican Government officials, its leadership, and the military. Nevertheless, sustained government pressure has disrupted established transnational cocaine supply chains, interfered with day-to-day cartel operations, and has started to fragment Mexico's powerful drug cartels. We assess that significantly more cocaine is diverting to Central America before moving into Mexico, a shift that, in our judgment, mitigates some risks drug traffickers faced in Mexico but that also complicates trafficking operations.

As trafficking networks have come under increasing strain from President Calderon's counternarcotics efforts, elements of Mexico's most powerful cartels have become more aggressive. The assassination of the national police commissioner last May, the grenade attack in a crowded plaza in Michoacan State last September and the execution of Brigadier General marco Enrique Tello Quinonez this month indicate cartel elements are increasingly willing to kill high-level Mexican officials, retaliate against soldiers, and tolerate more collateral damage among civilians not directly involved in the drug trade.

Calderon has demonstrated his determination to address the problem of narcotics-related corruption at all levels of the government by launching Operation Cleanup. Most notably, this has led to the arrest of a former Deputy Attorney General and the head of Interpol in Mexico. In addition, Calderon won approval in November of the 2009 federal budget, which increased outlays in real terms to the Public Security Secretariat and the Attorney General's Office by 69 percent and 29 percent, respectively.

Colombia

President Uribe is committed to an all-out effort to defeat the Revolutionary Armed Forces of Colombia by the time his term ends in 2010. His public statements indicate he is determined to use Colombia's security forces to maintain the systematic military pressure that has kept the FARC on the run, caused the FARC to lose territory, and degraded FARC command and control. Among the major successes in 2008 were the deaths of key FARC leaders, including members of the ruling Secretariat, a continued high number of FARC desertions, and the 2 July rescue of 15 hostages, including three US citizens.

Despite these reverses, the FARC leadership has shown no signs it seeks to end hostilities or participate in serious peace talks. The group has a record of resilience, and its chances for surviving as a viable insurgent force over the next several years will be aided by a still-cohesive leadership structure, substantial drug revenues, and cross-border sanctuaries in Venezuela and Ecuador.

Although the FARC is unlikely to make a sustained comeback, it will still be able to conduct small-scale guerrilla and terrorist attacks nationwide. Official and nonofficial US citizens remain at risk.

The government's successes have contributed to a dramatic drop in crime, terrorist acts, massacres, and kidnappings. Bogota has made progress on providing better protection for labor unionists and instituting policies to educate the security services on human rights standards. Bogota needs to follow through, however, with its proposals to strengthen the judiciary and prosecute the murders of union members and human rights workers.

Bogota's counterdrug successes—including capture and extradition of the leaders of the North Valley Cartel, the last remaining large-scale drug cartel (besides the FARC), the targeting of mid-level leaders, a strong security force presence in key drug transit and coca growing zones, and its US-backed coca eradication program—have hampered FARC drug trafficking operations. Bogota's strides in tackling corruption also have led to high-profile trafficker takedowns. Bogota arrested or killed important traffickers such as the Mejia Munera brothers, known as "los Mellizos," in 2008 after the officials protecting them were removed from office. Colombian interdiction efforts resulted in an increase in seizures in 2008. Still, Colombia remains the world's leading producer of cocaine and a key supplier of heroin to the US market. The US Government's 2007 imagery-based survey indicates 167,000 hectares in Colombia were planted with coca, as compared to 157,200 in 2006, a statistically insignificant increase. Although the total area under cultivation remained nearly constant, aerial eradication reduced yield per hectare by killing some plants inside of areas counted as fully under cultivation and causing some farmers to lose harvests before they could rehabilitate the field. This resulted in a reduction in potential cocaine production from 550 metric tons in 2006 to 535 in 2007. Area under cultivation in 2007 was slightly less than in 2001, the year when Plan Colombia support began to take hold, but potential production is about one quarter less, due to the effects of aerial eradication on yield. We are still compiling and assessing the data from 2008.

Venezuela

President Hugo Chavez is focusing on shoring up public support at home after his opponents won five key states and the capital in November gubernatorial and mayoral elections. Chavez also must deal with growing public concern about violent crime and worsening economic conditions. Nevertheless, Chavez remains Venezuela's most popular politician, according to a reputable local polling company, and controls the country's key institutions. To consolidate his socialist "revolution," Chavez has ordered a referendum for February aimed at allowing indefinite reelection for all elected officials. His push probably reflects concern over dwindling oil profits undercutting his ability to maintain popular domestic programs.

Chavez probably will struggle to maintain economic growth in the coming years as oil prices fall from their record highs. He has been unable to control high inflation and his statist economic policies have reduced drastically private-sector growth. Chavez also has failed to make sufficient investments in infrastructure, especially in the vital oil sector, necessary for sustained growth.

- Venezuela's crude oil output of about 2.3 million b/d and its exports to the United States are slowly declining; prospects for a significant turnaround are limited unless Caracas changes its current oil policies.

- If the price of West Texas Intermediate oil stays below $50 per barrel for most of 2009, Chavez probably will be forced to make major cuts in domestic and foreign spending or to devalue the Venezuelan currency and draw down government hard currency reserves to avoid a major economic crisis.

Chavez is likely to face new constraints in 2009 as he attempts to expand his influence in Latin America. His willingness to spend oil revenue on foreign aid and his unstinting populist message have paid some dividends, but repeated spats with foreign leaders have tarnished his image and falling oil prices could further undermine his ability to buy friends. Chavez's approval rating has been decreasing regionally, according to the 2008 Latinbarometer, a highly regarded regional survey. Chavez has provided significant financial and political support to Evo Morales in Bolivia and Daniel Ortega in Nicaragua.

Public disclosure of Chavez's close ties with the Revolutionary Armed Forces of Colombia (FARC), which were reflected in documents from the hard drives captured after the death of a FARC Secretariat member in March, have forced Chavez, at least rhetorically, to improve relations with Bogota. We assess Chavez is likely to maintain his decade-long ties to the FARC by providing them safehaven because of his ideological affinity to the group and his interest in influencing Colombian politics.

- The United States in September designated two senior Venezuelan Government officials and one former official under the Foreign Narcotics Kingpin Designation Act for materially assisting the narcotics trafficking activities of the FARC.

Chavez's efforts to expand his reach beyond Latin America continue to give priority to Iran, Russia, and China. The personal relationship between Iran's President Ahmadi-Nejad and Chavez drives strengthening bilateral economic and military ties, although the two countries are still struggling to overcome bureaucratic and linguistic obstacles to implementing accords. Venezuela also is serving as a bridge to help Iran build relations with other Latin American countries. Chavez has given special attention in recent months to deepening political, economic, and military ties to Russia. In late 2008, he announced his plans to build a nuclear power plant in Venezuela with Russian assistance.

Despite Caracas's stated interest in purchasing more Russian, Chinese, and Spanish armaments, worsening economic conditions probably will force Chavez to slow such acquisitions. His $5.3 billion in military purchases since 2005 have attracted notice within the region, although Venezuela's overall military capabilities remain plagued by logistic, maintenance and transportation shortfalls. Notable purchases from Russia include 24 Su-30MK2 fighters, helicopters, and assault rifles.

Chavez's growing ties to Iran, coupled with Venezuela's lax financial laws and border controls, and widespread corruption have created a permissive environment for Hizballah to exploit. In June 2008, two Venezuelan-based individuals, one a Venezuelan diplomat, were

designated by the US Treasury Department as supporters of terrorism for reportedly providing logistical and financial support to Hizballah members.

Venezuela is second only to Colombia as the most important cocaine departure country in South America, and it is the leading departure country of air smuggling to world markets. Venezuela's share of the cocaine departing South America has tripled from 5 percent in 2004 to 15 percent through the third quarter of 2008. counternarcotics cooperation has sunk to an all-time low in the wake of the expulsion of the US Ambassador by Chavez and his refusal to grant visas to new DEA officials to work in Venezuela.

Cuba

President Raul Castro's record since formally taking power in February 2008 indicates his primary objective in the coming year will be to make Cuba's dysfunctional socialist economy more efficient. His task has been made more difficult, however, by the extensive damage to the country's already weak agricultural sector and infrastructure by three major and successive hurricanes last year. The global economic downturn will further slow growth, diminishing the regime's options for addressing public dissatisfaction with living conditions.

Havana's competent and immediate response to the hurricanes underscores the effectiveness of regime controls and indicates that it remains capable of preventing a spontaneous mass migration. Nevertheless, we judge that at a minimum the annual flow of Cuban migrants to the United States will stay at the same high levels of about 35,000 legal and illegal migrants annually that have prevailed over the past several years.

Raul almost certainly will continue to proceed cautiously on any reforms to the economy in order to maintain elite consensus and avoid raising public expectations beyond what he is able or willing to deliver. We have seen no indication in the modest changes he has implemented that he intends to abandon core Communist economic principles, such as state ownership of production. On the political front, all indications are that Raul will continue to deny elements of civil society and pro-democracy dissidents the exercise of free expression.

Venezuela's preferential terms for oil sales and payments for Cuban medical personnel and other technical specialists will remain Cuba's economic lifeline, despite Cuba's efforts to attract other sources of foreign investment from countries such as China and Russia. President Chavez probably will prioritize aid to Havana over other foreign policy commitments.

We assess Raul will continue his efforts to bolster Havana's international legitimacy by projecting a more moderate political image. Nevertheless, Cuba almost certainly will remain heavily involved behind-the-scenes in counseling and supporting authoritarian populist governments in Latin America and otherwise seeking to undermine US influence across the region.

Bolivia

After nearly a year of sporadic unrest and rising tensions, President Evo Morales and opposition legislators last October reached a compromise to allow a referendum in late January on a draft constitution that encapsulates much of Morales' social and economic reform agenda.

The compromise eased tensions following a string of violent protests last fall, but some leaders in eastern departments rejected the compromise. Nevertheless, the referendum passed by a comfortable margin. The draft constitution leaves many contentious issues vague, which several government and opposition leaders have acknowledged probably will lead to further disputes over implementation in the run-up to new presidential elections in December 2009.

Although the risk of violence against US citizens has been reduced for the time being, Morales consistently has accused official US organizations—the US Embassy, DEA, and USAID—of conspiring against him. Morales in September expelled the US Ambassador and in November expelled DEA personnel. Morales in January publicly threatened to close Congress and pass bills implementing the new Constitution by decree if legislators refused to cooperate.

Chavez promised to protect Morales's government and provided La Paz important financial assistance. Since 2006, Venezuela has provided Bolivia more than $95 million in direct financial aid.

Africa: Falling Further Behind

Africa has made substantial economic and political progress over the past decade. However, the durability of the region's recent positive growth trend, particularly among countries dependent on commodity exports and foreign capital inflows, will be tested by the drop in commodity prices and recessions in the United States and Europe. Even before the financial crisis hit, the 6 percent GDP growth rate—although impressive—was insufficient to bring about necessary structural changes in the continent's economy. Africa's economic growth is led by a small number of oil-producing countries, but even those countries without oil resources have experienced GDP growth rates far above their historical rates. Agriculture, the foundation of most African economies, is far from achieving self-sufficiency, but technical solutions and infrastructure enhancement have demonstrated their ability to boost production in Mali, Malawi and Zambia. Further transformations remain uncertain in light of the EU's continuing ban on genetically modified foodstuffs.

In addition to fallout from the global financial crisis, Africa faces other economic, societal and security challenges. Sub-Saharan Africa is confronting a shortage of skilled medical personnel, deteriorating health systems, and inadequate budgets to deal with diseases like HIV/AIDS, malaria, and tuberculosis. Transnational crime, especially the transshipment of illegal drugs to Europe, and corruption are growing in various parts of Africa, weighing down the continent's economic growth, reducing government efficiency, and undermining the security services of African states.

China's presence has grown substantially over the past decade. Total bilateral trade between China and the continent has increased from less than $4 billion in 1995 to $100 billion in 2008, but the EU and US still remain far larger economic partners for the region. China's objectives are to secure access to African markets and natural resources, isolate Taiwan, and enhance its international stature, all of which it has made progress on. Nevertheless, China's role has generated local resentment as Chinese firms are seen as undercutting African competitors in

securing commercial contracts and falling short of standard local labor practices. Moreover, there is little discernible evidence of Chinese investments being used to incorporate Africa into the industrial "global value production chains" that are becoming the hallmark of integrative trade and FDI flows, especially in manufacturing in other regions of the world.

The most serious problem confronting Africa is the continuation of a number of serious and seemingly intractable conflicts in three of Africa's largest and most important states: the Democratic Republic of the Congo, Nigeria, and Sudan. The conflicts in the Congo and Sudan have spilled across their borders and have at times taken on a regional dimension. In the Horn of Africa, the ongoing conflict in Somalia and the collapse of the country's economy have given rise to a piracy epidemic in the Gulf of Aden and have created a terrorist safehaven in southern Somalia.

Although African governments' political commitment to peacekeeping has increased significantly over the last ten years, the capacities of the African Union, regional organization, and individual African states to conduct peacekeeping operations have been stretched to the limit. Major troop contributing countries are becoming more wary and less capable of deploying peacekeepers to potentially dangerous operations whose mandates and missions are unclear.

The Democratic Republic of the Congo

In the Democratic Republic of the Congo, President Joseph Kabila has been unable to consolidate his control over the turbulent Eastern border region. In that area, rebel groups, undisciplined soldiers, and ethnic militia have operated inside and outside of the DRC largely with impunity for many years and have been responsible for numerous acts of violence and human rights abuses. The trouble has persisted, even with the help of the largest UN peacekeeping operation in the world. Recently, however, Kabila has agreed to conduct joint military operations with nearby countries in an effort to root out some of these groups. As a result, Rwanda and Uganda have each sent forces into different parts of the border region, Rwanda into the North and South Kivu Provinces and Uganda into the extreme northeastern region. In the Kivus, Kinshasa and Kigali are both concerned about the remnant of the 1994 Hutu-led Force for the Democratic Liberation of Rwanda (FDLR). While not a military threat to the Tutsi-led government in Kigali at this time, the force is a threat to local Congolese communities. With Kinshasa's approval, Rwanda sent several thousand soldiers into the area to defeat, demobilize, or repatriate the FDLR. In return for Kinshasa's cooperation, Kigali appears to have dropped its support for a Congolese Tutsi rebel leader, General Laurent Nkunda. The Rwandans have arrested Nkunda and have him in custody. Moreover, his forces have divided, some joining up with Congolese government troops. In the northeast, the Ugandan-led military operation (with both Congolese and Sudanese support) has so far been unsuccessful. Its objective is to eliminate the threat posed by the Ugandan rebel group known as the Lord's Resistance Army (LRA), led by Joseph Kony. Congolese forces, in the near term, probably will not be able to reassert sufficient control over territory occupied by the LRA and other rebels groups or to stop sporadic outbreaks of violence.

Nigeria

Nigeria's oil-rich Delta region, which supplies 10 percent of US oil imports and accounts for America's largest investment in Sub-Saharan Africa, has been engulfed in civil strife for

nearly two decades. Widespread violence, criminality, and corruption have continued to disrupt Nigeria's oil and gas production, costing the country millions of dollars in lost revenue. Inadequate governance and a total lack of accountability has put billions of dollars in the pockets of corrupt leaders rather than in much needed development and infrastructure projects. Opportunistic militants, many of whom are beholden to local political leaders who have armed them in the run-up to Nigeria's last three national elections, have attacked oil facilities, kidnapped Nigerian and foreign oil workers, and left much of the Delta lawless and economically ravaged. As result of the violence and criminal activity, Nigerian oil production declined about 10 percent in 2008. Unstable political conditions and the fall in the price of crude oil probably will slow or deter additional foreign investment in the Delta, contributing to further production drop-offs in the future. A turnaround in the current security environment is unlikely soon.

Sudan

As Sudan approaches two major landmarks in the implementation of the 2005 Comprehensive Peace Agreement (CPA), the country remains plagued by violence in Darfur, and the ruling National Congress Party's (NCP) confidence in President Omar Hassan al-Bashir may be waning. The NCP and Sudanese People's Liberation Movement (SPLM) are likely to postpone national elections required to be held under the CPA by July 2009. Election delays are unlikely to trigger a violent collapse of the CPA because both parties have strong incentives to maintain the status quo until at least 2011 when the South will vote on a referendum for independence. However, the parties will have to address critical benchmarks for wealth-sharing and border demarcation contained in the CPA.

- The Darfur conflict has become increasingly complicated over the course of the past five years and is unlikely to be resolved in the near future. While bureaucratic and logistic constraints in New York and Sudan continue to delay full deployment of a 26,000-person UN peacekeeping force, the UN mediator's attempt to hold inclusive peace talks remains stymied by rebel disunity and ongoing fighting, which, to date, has displaced more than 3 million people. Chadian-backed rebels based in Darfur have advanced on the Sudanese capital in the past year, risking an escalated proxy war between Khartoum and N'Djamena.

- A pending request by the International Criminal Court's (ICC) chief prosecutor for a warrant to arrest Sudanese President Omar Hassan al-Bashir on charges of war crimes, crimes against humanity, and genocide has heightened Khartoum's distrust of Western intentions, while inducing Sudanese officials to appear cooperative with international peacemaking attempts in the short term. The ICC charges against Bashir may undermine his support in the NCP and among Sudan's military leadership.

Somalia

Somalia has not had a stable, central government for 17 years and continues to be mired in conflict. An UN-brokered agreement between the Somali Transitional Federal Government (TFG) and key opposition leaders in mid-2008 is unlikely to bring peace to Somalia in the near term. In January 2009 Ethiopia withdrew the troops it deployed in late 2006 to protect the TFG and oust the Council of Islamic Courts (CIC). Resurgent Islamic extremists are now fighting to fill the void and expand their hold on territory throughout the country. A newly elected

pragmatic Islamist president may enhance the credibility of the TFG, but he will face multiple challenges maintaining the new ruling coalition, including the continued dominance of clan politics. The removal of Ethiopian troops, whose presence has alienated most Somalis, is likely to reduce popular support for the extremist group, al-Shabaab al Islamiyah. However, the TFG lacks a viable security service to defend its leaders and a modest African Union peacekeeping force has limited reach in Mogadishu. Violent power struggles between Islamist militias and emerging local resistance groups could displace thousands of additional Somalis, exacerbating already dire humanitarian conditions.

Lawlessness in Somalia already has prompted a surge in piracy in the Gulf of Aden. The number of successful pirate attacks has increased almost fourfold since 2007 after the pirates received several multi-million dollar ransom payments in early 2008. Local authorities' unwillingness or inability to stem piracy also has fueled the proliferation of hijackings. The growing number and sophistication of Somali pirate attacks threaten to restrict the options for countering them, and they could take root in Somali society if left unchecked.

Zimbabwe

Zimbabwe continues to deteriorate under the brutal and corrupt rule of President Robert Mugabe. Over half the population is food insecure and public health facilities and schools have been almost completely shut down. With over 60,000 infected, the recent cholera epidemic is dramatic evidence of how far living conditions have plummeted in this once-prosperous and relatively well-developed country. Zimbabwe's sharp decline has generated problems throughout southern Africa as millions of refugees have fled to South Africa, Botswana, and Mozambique and as the region's well-publicized economic and security concerns have frightened foreign investors away. To date, Mugabe retains the support of his senior military officers and has shown little commitment to the power-sharing deal signed with the opposition Movement for Democratic Change (MDC). Mugabe also has managed to hold on to the backing of South Africa, a key regional player. Pretoria, which recently brokered a coalition agreement between Mugabe and the opposition Movement for Democratic Change, remains unwilling, despite growing criticism at home and abroad, to apply stronger pressure on Mugabe to step aside or to undertake fundamental political and economic reforms. Mugabe and his ruling elite are likely to remain in power until he loses the support of the security forces, South Africa steps up its pressure, or social and economic conditions in Zimbabwe become substantially worse. With both political parties signing on to the recent power-sharing agreement, it will be up to South Africa, the Southern African Development Community, and the African Union to carefully watch Mugabe's actions and ensure that power is in fact shared and the MDC is allowed to lead.

Drug Trafficking in West Africa

Drug trafficking has become a major problem in West Africa, and the emergence of Guinea-Bissau as Africa's first narco-state highlights the scope of the problem and what may be in store for other states in the region. Away from the scrutiny of local and international law enforcement, drug traffickers, often departing from Venezuela by air and sea, have transported large quantities of drugs, predominantly cocaine, from Latin America to European markets through the porous borders of more that a half dozen West African countries. Traffickers have successfully co-opted government and law enforcement officials in these countries, further undermining weak and economically impoverished governments who lack adequate law

enforcement and judicial capacity. ECOWAS sponsored a conference in Cape Verde in late 2008 to address this issue and the governments of Great Britain and France have conducted limited law enforcement and counternarcotics training in the region, but drug trafficking in West Africa probably will continue to expand in volume and scope in the absence of a concerted international effort to stop it.

The Growing Cyber and Organized Crime Threat

Threats to the US Information Technology Infrastructure

The US information infrastructure, including telecommunications and computer networks and systems, and the data that reside on them, is critical to virtually every aspect of modern life. Threats to our information technology infrastructure are an important focus of the Intelligence Community. As government, private sector, and personal activities continue to move to networked operations, as our digital systems add ever more capabilities, as wireless systems become even more ubiquitous, and as the design, manufacture, and service of information technology have moved overseas, the threat will continue to grow.

This information and communications revolution also is enabling an unprecedented ability to spread ideas and influence large numbers of people. Nation-states and non-state groups are taking an increasing interest in the role of mass media in shaping international opinions. Terrorists will continue to be motivated to conduct spectacular attacks in part by the desire to achieve maximum media exposure for their cause. Increasing global connectivity is enabling radical groups to recruit and train new members, proliferate extremist ideologies, manage their finances, manipulate public opinion, and coordinate attacks. In the recent conflict in Gaza, for example, the media played an important role for both sides in shaping public perceptions of the conflict. We can expect future adversaries to similarly employ mass media in an attempt to constrain US courses of actions in a future crisis or conflict.

Further, the growing connectivity between information systems, the Internet, and other infrastructures creates opportunities for attackers to disrupt telecommunications, electrical power, energy pipelines, refineries, financial networks, and other critical infrastructures. Over the past several years we have seen cyber attacks against critical infrastructures abroad, and many of our own infrastructures are as vulnerable as their foreign counterparts.

- A successful cyber attack against a major financial service provider could severely impact the national economy, while cyber attacks against physical infrastructure computer systems such as those that control power grids or oil refineries have the potential to disrupt services for hours to weeks.

Network defense technologies are widely available to mitigate threats but have not been uniformly adopted due to associated costs, perceived need, operational requirements, and regulatory constraints. This slow rate of adoption has allowed cyber attackers to keep up with many defensive advances. Meanwhile, advances in digital communications technology, such as the growth in wireless connectivity and the acceleration of network convergence with a variety data increasingly digitized and transmitted over the Internet, are creating new vulnerabilities in our networks and new avenues for cyber attacks.

Malicious activity on the Internet also is rapidly increasing: spam—unsolicited email that can contain malicious software—now accounts for 81 percent of all email according to Message Labs (Symantec); the Georgia Tech Information Security Center projects a ten-fold increase in malicious software targeting data in the coming year; and botnets—networks of hijacked computers used to deliver spam or launch distributed denial of service attacks—are expected to compose 15 percent of all online computers in 2009. Ferris Research estimates that the total cost of spam and all of the types of fraud that take advantage of spam's impact is $42 billion in the United States and $140 billion worldwide in last year, while McAfee estimates that global companies may have lost over $1 trillion worth of intellectual property to data theft in 2008.

State and Non-State Threats. A growing array of state and non-state adversaries are increasingly targeting—for exploitation and potentially disruption or destruction—our information infrastructure, including the Internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries. Over the past year, cyber exploitation activity has grown more sophisticated, more targeted, and more serious. The Intelligence Community expects these trends to continue in the coming year.

We assess that a number of nations, including Russia and China, have the technical capabilities to target and disrupt elements of the US information infrastructure and for intelligence collection. Nation states and criminals target our government and private sector information networks to gain competitive advantage in the commercial sector. Terrorist groups, including al-Qa'ida, HAMAS, and Hizballah, have expressed the desire to use cyber means to target the United States. Criminal elements continue to show growing sophistication in technical capability and targeting and today operate a pervasive, mature on-line service economy in illicit cyber capabilities and services available to anyone willing to pay. Each of these actors has different levels of skill and different intentions; therefore, we must develop flexible capabilities to counter each. We must take proactive measures to detect and prevent intrusions from whatever source, as they happen, and before they can do significant damage.

We expect disruptive cyber activities to be the norm in future political or military conflicts. The Distributed Denial of Service (DDoS) attacks and Web defacements that targeted Georgia in 2008 and Estonia in 2007 disrupted government, media, and banking Web sites. DDoS attacks and Web defacements targeted Georgian government Web sites, including that of Georgian President Saakishvili, intermittently disrupting online access to the official Georgian perspective of the conflict and some Georgian Government functions but did not affect military action. Such attacks have been a common outlet for hackers during political disputes over the past decade, including Israel's military conflicts with Hizballah and HAMAS in 2006 and 2008, the aftermath of the terrorist attacks in Mumbai last year, the publication of cartoons caricaturing the Prophet Mohammed in 2005, and the Chinese downing of a US Navy aircraft in 2001.

The Comprehensive National Cybersecurity Initiative. In January 2008, the Comprehensive National Cybersecurity Initiative (CNCI) was adopted as national policy as part of National Security Presidential Directive 54/Homeland Security Presidential Directive 23 (NSPD-54/HSPD-23). With bipartisan support, Congress appropriated the vast majority of the CNCI funding request in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.

The CNCI addresses current cybersecurity threats, anticipates future threats and technologies, and develops a framework for creating in partnership with the private sector an environment that no longer favors cyber intruders over defenders. The CNCI includes defensive, offensive, education, research and development, and counterintelligence elements, while remaining sensitive throughout to the requirements of protecting the privacy rights and civil liberties of US citizens. The CNCI is now making considerable progress in building a better understanding of the cyber threat, developing concrete solutions, and approving detailed courses of action. The Adminstration is now reviewing CNCI, to ensure it is consistent with its own cybersecurity policy.

To be sure, significant work remains in order to protect, defend, and respond to the cyber threat in a manner that markedly improves our nation's overall security. Yet there is reason to be hopeful. We are witnessing an unprecedented unity of effort across a broad coalition of government agencies, members of Congress, and leaders of industry. To succeed, however, the CNCI must remain a long-term national priority. With sustained momentum and continued national resolve we can and will build an enduring security framework capable of protecting our vital national security, economic, and public health interests.

We cannot afford to discover successful cyber intrusions after-the-fact, accept disastrous losses, and then seek merely to contain them. It requires a broad alliance of departments, agencies, and industry leaders to focus on countering the threat, mitigating vulnerabilities, and enhancing resiliency in order to preserve our national security, national economy, and public welfare.

Growing Transnational Organized Crime Threat

Most organized criminal activities increasingly involve either networks of interconnected criminal groups sharing expertise, skills, and resources in joint criminal ventures that transcend national boundaries or powerful, well-organized crime groups seeking to legitimize their image by investing in the global marketplace. Organized criminals and groups will increasingly pose a threat to US national security interests by enhancing the capabilities of terrorists and hostile governments.

Some organized crime networks, groups, and individuals also have invested in energy and mineral markets in an effort to diversify and legitimize their business activities. Criminals' coercive tactics, underhanded business practices, opaque motives, and self-serving loyalties can undermine the normal workings and integrity of these global markets. The most powerful, high-profile Eurasian criminal groups often form strategic alliances with senior political leaders and business tycoons and can operate from a relative safehaven status with little to fear of international arrest and prosecution. The leaders of many of these groups go to great lengths to portray themselves as legitimate businessmen and use front companies that give them more market access and leverage. They also employ some of the world's best accountants, lawyers, bankers, and lobbyists to deflect and frustrate the efforts of authorities.

The change in the structure and types of activities conducted by transnational criminal groups is making it increasingly difficult to identify and attack them. In particular, the

increasing prevalence of loosely knit networks, the use of cyberspace and global financial systems, and political corruption have made it easier for them to hide their involvement, to thwart law enforcement efforts, and to create images of legitimacy.

Environmental Security

Climate change, energy, global health, and environmental security are often intertwined, and while not traditionally viewed as "threats" to US national security, they will affect Americans in major ways. The Intelligence Community has increased its focus on these three critical issues as a result of unprecedented developments in the last year.

Access to relatively secure and clean energy sources and management of chronic food and water shortages will assume increasing importance for a growing number of countries. Adding well over a billion people to the world's population by 2025 will itself put pressure on these vital resources. An increasing percentage of the world's population will be moving from rural areas to urban and developed ones to seek greater personal security and economic opportunity. Many, particularly in Asia, will be joining the middle class and will be seeking to emulate Western lifestyles, which involves greater per capita consumption of all these resources.

The already stressed resource sector will be further complicated and, in most cases, exacerbated by climate change, whose physical effects will worsen throughout this period. Continued escalation of energy demand will hasten the impacts of climate change. On the other hand, forcibly cutting back on fossil fuel use before substitutes are widely available could threaten continued economic development, particularly for countries like China, whose industries have not yet achieved high levels of energy efficiency.

Food and water also are intertwined with climate change, energy, and demography. Rising energy prices increase the cost for consumers and the environment of industrial-scale agriculture and application of petrochemical fertilizers. A switch from use of arable land for food to fuel crops provides a limited solution and could exacerbate both the energy and food situations. Climatically, rainfall anomalies and constricted seasonal flows of snow and glacial melts are aggravating water scarcities, harming agriculture in many parts of the globe. Energy and climate dynamics also combine to amplify a number of other ills such as health problems, agricultural losses to pests, and storm damage. The greatest danger may arise from the convergence and interaction of many stresses simultaneously. Such a complex and unprecedented syndrome of problems could cause outright state failure, or weaken important pivotal states counted on to act as anchors of regional stability.

Six to nine months ago we were worried about the implications of increasing high oil prices: the situation has reversed sharply with oil prices falling to close to a third of their July 2008 peak of $147 per barrel in response to the sudden drop in world oil demand growth and slower economic growth resulting from the global financial crisis. Although we believe the longer-term trend is toward high oil prices, the current lower oil prices reduce pressures on the global economy. Emerging economies previously concerned about busting their budgets on fuel and food subsidies are breathing a sigh of relief now that prices have fallen substantially over the last six months. Most forecasters expect global oil demand and oil prices to remain depressed

through 2009 as the financial turmoil continues to unwind. The decline in price may, however, lead to delayed or cancelled investments in the upstream oil and gas sectors, creating the conditions for another spike in oil prices once global oil demand recovers. We also are concerned that lower oil prices may weaken momentum toward energy efficiency and the development of alternative sources of energy that are important for both energy and environmental security. The fall in energy prices also has had the side benefit of undercutting the economic positions of some of the more troublesome producers.

Assessing the Impact of Climate Change

According to the United Nations Intergovernmental Panel on Climate Change (IPCC), a failure to act to reduce green house gas emissions risks severe damage to the planet by the end of this century and even greater risk in coming centuries. In a fossil fuel-intensive scenario that IPCC examined (A1FI), global average temperatures increase by almost four degrees centigrade. In such a scenario, water stored in glaciers and snow cover would decline significantly, reducing water availability in regions supplied by melt water from major mountain ranges, where more than one-sixth of the world population currently lives. Sea-level rise could be up to 59 centimeters by the end of the century and would cause substantial flooding. Individuals in densely populated and low-lying areas, especially the mega deltas of Asian and Africa, where adaptive capacity is relatively low, and which already face other challenges such as tropical storms or local coastal subsidence, are especially at risk. At a four-degree rise, according to the IPCC, up to 30 percent of plant and animal species would be at risk of extinction, global productivity in cereals would decline, intensity of tropical cyclones would increase, and extreme drought areas would rise from 1 percent land area to 30 percent.

The Intelligence Community recently completed a National Intelligence Assessment on the national security impacts of global climate change to 2030. The IC judges global climate change will have important and extensive implications for US national security interests over the next 20 years. Although the United States itself could be less affected and is better equipped than most nations to deal with climate change and may even see a benefit in the near term owing to increases in agriculture productivity, infrastructure repair and replacement will be costly. We judge the most significant impact for the United States will be indirect and result from climate-driven effects on many other countries and their potential to seriously affect US national security interests. We assess climate change alone is unlikely to trigger state failure in any state out to 2030, but the impacts will worsen existing problems such as poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions. Climate change could threaten domestic stability in some states, potentially contributing to intra- or, less likely, interstate conflict, particularly over access to increasingly scarce water resources. We judge economic migrants will perceive additional reasons to migrate because of harsh climates, both within nations and from disadvantaged to richer countries.

From a national security perspective, climate change affects lives (for example, through food and water shortages, increased health problems including the spread of disease, and increased potential for conflict), property (for example through ground subsidence, flooding, coastal erosion, and extreme weather events), and other security interests. The United States depends on a smooth-functioning international system ensuring the flow of trade and market

access to critical raw materials such as oil and gas, and security for its allies and partners. Climate change could affect all of these—domestic stability in a number of key states, the opening of new sea lanes and access to raw materials, and the global economy more broadly—with significant geopolitical consequences.

In addition, anticipated impacts to the Homeland—including warming temperatures, changes in precipitation patterns, and possible increases in the severity of storms in the Gulf, increased demand for energy resources, disruptions in US and Arctic infrastructure, and increases in immigration from resource-scarce regions of the world—are expected to be costly. Government, business, and public efforts to develop mitigation and adaptation strategies to deal with climate change—from policies to reduce greenhouse gasses to plans to reduce exposure to climate change or capitalize on potential impacts—may affect US national security interests even more than the physical impacts of climate change itself.

Multilateral policymaking on climate change is likely to be highly visible and a growing priority among traditional security affairs in the coming decades. We observe the United States is seen by the world as occupying a potentially pivotal leadership role between Europe, which is committed to long-term and dramatic reduction in carbon emissions, and a heterogeneous group of developing states wary of committing to greenhouse gas emissions reductions, which they believe would slow their economic growth. As effects of climate change begin to mount, the United States will come under increasing pressure to join the international community in setting meaningful long-term goals for emissions reductions, to reduce its own emissions, and to help others mitigate and adapt to climate change through technological progress and financial assistance.

Global Health

Considerable empirical and theoretical studies have demonstrated the links between the health of a population and economic growth and development. Highly publicized virulent infectious diseases—including HIV/AIDS, a potential influenza pandemic, and "mystery" illnesses such as the 2003 outbreak of severe acute respiratory syndrome (SARS)—remain the most *direct* health-related threats to the United States. The most pressing *transnational* health challenge for the United States is still the potential for emergence of a severe pandemic, with the primary candidate being a highly lethal influenza virus. The World Bank estimates that if the next pandemic virus is similar to the one that caused the 1918 pandemic, it could kill 71 million people worldwide and cause a major global recession with global costs exceeding $3 trillion. Other estimates, applying the 2.5 percent fatality rate from the 1918 pandemic to today's population, reach 180 million deaths worldwide. Current threats include H5N1 influenza, a virus that, while primarily a poultry disease, continues to evolve and expand its geographic range.

Infectious diseases are not the only health indicators with strategic significance. Chronic, non-communicable diseases; neglected tropical diseases; maternal and child mortality; malnutrition; sanitation and access to clean water; and availability of basic health-care also affect the US national interest through their impacts on the economies, governments, and militaries of key countries and regions.

- Terrorists and warlords have gained local and international stature and even power by providing health services governments could not. Widespread ill health in the youth cohort

may reduce a country's pool of healthy and capable military recruits, a phenomenon that is currently playing out in Russia and North Korea.

Looking at specific states, the inability of the central government of **Afghanistan** to provide health-care and other services has helped to undermine its credibility while boosting support for a resurgent and increasingly sophisticated Taliban. Wide incidence of traumatic births, malnutrition, and disease put children there at high risk of impaired development, undermining their prospects of attending school, engaging more productively in critical labor such as agricultural production, and participating in other economic activity. In **Iraq,** a degraded health sector, shortages of medical personnel, and infections stemming from deficient sanitary conditions and lack of clean drinking water have undermined the credibility of the central government.

Russia has the overall worst health indicators of any industrialized country. Poor health of Russian children and young people combined with falling birthrates threatens Russian military readiness with a projected halving of eligible military recruits between 2005 and 2018. **China's** high incidence of chronic disease stemming in great part from heavy tobacco use threatens to slow economic growth by incapacitating workers and incurring heavy health-care costs. The health effects of environmental degradation are an increasing source of discontent in China.

Venezuela and Cuba have been particularly adept at parlaying provision of charitable medical services to nationals of other countries into support in international forums such as the United Nations. Hizballah's provision of health and social services in Lebanon over the past 20 years has helped to legitimize the organization as a political force in that country, while HAMAS's delivery of similar services was a factor in its legislative electoral success in the Palestinian territories.

Turning to US Homeland health security issues, existing international resources and regulations will be inadequate to control transnational disease spread at least through the next decade. Movement of people, animals, and products through mass transportation, smuggling, and commerce will continue to homogenize the already global environment. Incidents involving chemical or bacterial contamination of imported food or trade goods, whether accidental or intentional, are likely to increase as China and other developing countries struggle to implement effective monitoring systems. A similar challenge involves ensuring the safety of imported therapeutic drugs and precursor products, as contaminated and counterfeit pharmaceuticals continue to be a worldwide public health threat.

Conclusion

The international security environment is complex. No dominant adversary faces the United States that threatens our existence with military force, but the global financial crises has exacerbated what was already a growing set of political and economic uncertainties. We are nevertheless in a strong position to shape a world reflecting universal aspirations and values that have motivated Americans since 1776: human rights; the rule of law; liberal market economics and social justice. Whether we can succeed will depend on actions we take here at home—restoring strong economic growth and maintaining our scientific and technological edge and defending ourselves at reasonable cost in dollars without violating our civil liberties. It will also depend on our actions abroad, not only in how we deal with regions, regimes and crises, but also

in developing new multilateral systems, formal or informal, for effective international cooperation in trade and finance, in neutralizing extremist groups using terrorism, in controlling the proliferation of WMD, developing codes of conduct for cyberspace and space, and in mitigating and slowing global climate change.

The CHAIRMAN. I will save my questions for later and yield my time to the Vice Chair of the committee.

Mr. HASTINGS. Thank you very much, Mr. Chairman.

Mr. Chairman, let me congratulate you on holding this hearing.

Mr. Director, Admiral, as others have welcomed you, so do I. I will not take a lot of time. I would like to make a statement and then to give you something to get back to me on that I consider of critical importance to your mission.

There is a lot of discussion regarding Guantanamo, and there will continue to be a lot of discussion regarding Guantanamo. Admiral, when I was president of the Parliamentary Assembly of the Organization for Security and Cooperation in Europe—and I am fond of saying, if you can say that, you ought to be the president of the organization. But there are 56 countries that are represented by parliamentarians in that organization. After Abu Ghraib, what I found was a continuing harangue, specifically directed at Guantanamo more than anything; and then, with the considerable information that appeared in the public realm regarding renditions, Guantanamo continued to loom large.

A delegation from France and Belgium came to me as president and said that they wanted to go to Guantanamo. It took me a year, but I appointed a task force within the organization, led by the then President of the Belgian Senate, a woman named Anne-Marie Lizin.

I contacted the Defense Department and Secretary Rice, and they assisted in allowing Ms. Lizin and her entourage visit Guantanamo. They did so on two occasions. Came back, reported to Secretary Rice, and then to the organization. And it ameliorated some of the concern that members in the organization had, the mere fact that they had an opportunity to see it.

Now, we have persons at Guantanamo that are going to raise genuine concern among the American citizenry as to where they are placed. That said, I am of a mind that we need to rethink Guantanamo and allow, among other things, as I said to you on yesterday, that it be made manifestly clear why certain individuals are required to be held somewhere, no matter whether it is Guantanamo or a prison in the United States or in places where our allies or others may take them. But as long as our allies know these things and as long as the nongovernmental organizations know these things, if Amnesty International and the Red Cross are permitted to see the actual circumstances, then I believe that Guantanamo, different than most, can stay open with a greater understanding in the world as to why the individuals are being held there.

At least it is a different thought concerning how we go forward and contain individuals that simply cannot be released to the general public and cannot be released in many places, in many instances, in countries where they are likely to cause harm to U.S. interests and allies.

That said, you and I—I returned to this committee after a considerable amount of service, having taken myself off for a year, returning now for what will be a final 2 years. So you and I are 3½ weeks on the job, and it is a steep learning curve. And I don't expect that you have had an opportunity to do everything that I be-

lieve, knowing your background, that you are going to be able to do and accomplish in this job.

However, I do wish that in your examination that you pay specific attention to something that many members on this committee and many members past on this committee have continuously brought to the attention of the Intelligence Community, and that is diversity. Diversity as it pertains to the number of women in the Intelligence Community, diversity as it pertains to the number of blacks, Latinos, Asians, Native Americans, and every category.

We are again dealing with the subject of languages specifically and the great need that we have to examine the clearance mechanism and methodology that we employ so that we can find the necessary persons to match up with the circumstances of the day. That also includes cyberspace.

I hired a young man, 23 years old, at an entry level salary, that could run circles around many persons that are in the Intelligence Community dealing with cyber technology. We need to be able to pay these kids and bring them in and give them long-term retention, because there is going to be a problem.

I hope I have said something—I don't need an immediate response, but this is something you will continue to hear from me. If I continue to see nothing but white people come in here and nothing but men come in here, then you are going to see a continuing harangue from me, you and everybody in the Intelligence Community.

Thank you.

The CHAIRMAN. Thank you, Mr. Hastings.

Mr. Hoekstra.

Mr. HOEKSTRA. Thank you, Mr. Chairman.

Mr. Director, I didn't hear you address some of the questions that I had brought up about—you talked about the worldwide threats that are out there, but you didn't talk about how the Community was going to be arranged to confront these threats to get the information to provide this committee and Congress and the administration with the information that they might need, the structure, your vision for the ODNI and how you are going to repair and rebuild the trust between the Community and Congress. Can you address those couple of points?

Admiral BLAIR. Yes, sir. Let me turn to some of these organizational issues and management issues.

First, on diversity raised by Congressman Hastings. In my first week on the job, I met with Pat Taylor, who is our director of diversity. She showed me the figures in terms of minority and gender representation in the Intelligence Community. They are not bad, but they are not as good as they ought to be when you compare them to the Federal workforce, the workforce at large, and the population at large.

I also share the point that you and Chairman Reyes have made that diversity as far as the Intelligence Community is not simply a matter of something nice to have, it is something essential to have because of the diversity of environments in which we have to operate and which people that look like me are very conspicuous, and people who only speak Russian and English, like I do, are not that useful. So we are very much on that.

And we have good programs, including connections with learning institutions that can provide the sorts of skills that we need; and we include it in our management evaluations of our managers in the Community, from the executive level right down. So I look forward to continuing to talk to you on that, to all of you on that, because it is something that is important to me, and I think it is the right thing to do.

On the question of accountability, Congressman Hoekstra, every time a new administration comes into a job, it inherits a number of cases from the past. In my case, just to cite a couple, there is the Algerian chief of station who is being prosecuted by the Justice Department right now for actions that he took. You mentioned the Peruvian investigation. There are several others that are going on. There are the questions about the interrogations that were done by the CIA in the previous regime. And I think we have to deal with those in a prompt and fair manner, and I pledge to you that we will.

Ninety-nine percent of the people in the Intelligence Community want to do the right thing for the right reason. But in an organization of the tens of thousands that we have, I am not naive enough to believe that somebody out there isn't screwing up. I think what is more important is how you handle the example you set and, therefore, the culture that you build into the Community over time.

And I will tell you that my background has to do with accountability. I intend to exercise it. I intend to exercise it through the leaders of the organization in the Community. I don't drive down into an organization and pull a case up to my level if it is being handled correctly where it should be, which is by the directors of these 16 agencies. But I pledge to you that we will have a culture of accountability in the organization; and I know I have heard many individual concerns, all of which I will look into.

On the size of the DNI staff, I am getting a feeling for it right now. I am getting a feeling for the magnitude of the challenges. I will tell you that coordination can happen with ex cathedra pronouncements and with simply giving out orders, but integration is often harder and takes staff in order to understand what the carrots and sticks are at the working level where it counts and how you build the right structures to get integration across the Community.

Things like common security systems, common personnel standards, don't just happen by me signing an Intelligence Community directive. They have to be checked on. They have to be followed up. So there is a staff requirement for all of these integrative functions which are in the IRTPA Act of 2004; and I am getting a feeling now for whether we have the right amount of staff to do that, whether we can do it through just getting reports from the organizations themselves rather than checking on them.

I do feel strongly that we should not from the DNI level be involved in operations, and I think we are not. The only operations that I think we should be involved in are directing collection, for example, when we have to make decisions among competing priorities across INTs and across targets. Somebody's got to make a call that you put the satellites on this, you put the human intelligence on this. And that is my job, and I need some staff to do that.

Admiral BLAIR. And I need some staff to do that. So it is a complicated situation. But as we have talked previously, I don't think that many layers of bureaucracy in fat organizations are successful. I think they should be as lean as they need to be to do the job. And I look forward to talking with you about that. On Guantanamo Bay, we had a lively discussion yesterday. And I certainly gained more perspectives on it than I had when I walked in the door. But I do need to emphasize that the Intelligence Community is playing a role in this issue of Guantanamo. It is not running the show. The show is run by the three executive orders that the President signed a couple of weeks ago that assigns most of the responsibility to the Department of Justice, with major chunks of it to the Department of Defense, and major chunks of it to me.

I also would point out in the executive order that enabling legislation will be taken in consultation with the Congress. So there will be plenty of opportunity for both ends of Pennsylvania Avenue to decide these tough questions. And they are tough questions. The more I read about it, the more I realize how few easy answers there are, and we are going to have to make some calls. They are calls of the entire executive branch. And of course, they need support from this body as well.

Mr. HOEKSTRA. Thank you, Mr. Director. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Hoekstra. Mr. Tierney. Mr. Tierney is not here. Then Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. Director, thank you very much for being here. I had a couple of comments and a couple of questions. I want to reiterate the chairman's comments regarding gang activities south of our border, and would like to hear from you a commitment that you will work in a coordinated effort with all of the pertinent Intelligence Community, relevant Intelligence Community folks. We have got a tremendous problem not only with gangs, as the chairman brought up, but also with illicit drug trafficking and the fact that we have cartels now growing marijuana in this country using the money to purchase guns, ammunition, bringing it back across the border to continue with their cartel wars that also have a spillover effect into this country. And my sense is that we can do a lot more in regard to a coordinated effort to get ahead of this, and would like to make sure that we move in that direction. You had mentioned in your statement, or maybe it was the ranking member said that we wanted to create a lean and coordinated body when we developed your office.

And there has been a number of people, you heard about it yesterday in our briefing, and you heard it again today. Many of us feel that we have really strayed from that assignment. And I want to add on to that list. We have created duplications that hamper our ability do some of the things that we need to do. And I would like to hear from you a very honest assessment of how we break down some of that duplication, some of those barriers, and how we could maybe redesign or recoordinate our efforts to put those bodies in the field and make sure that we are able to meet our intelligence mission and not get bound up in bureaucracies that duplicate efforts and stop us from being able to do our oversight work.

And I just want to remind you our oversight function is something that we work in partnership with the Intelligence Community. We are not here in an adversarial role. The work that we do helps you do a better job and make sure that our country is safe and our interests are in fact safe.

And then lastly, I just want to touch on the GAO report. And I don't know that everything that is brought up and the answers that we need can be discussed in this open hearing, but I want to lay them out. If you can, in fact, respond, I would appreciate it. If not, you have between now and when we move into the closed session to at least think about it. But the GAO report was pretty critical on our policies in Pakistan. And it stated, and I will quote the U.S. Government has not met its national security goals to destroy terrorist threats and close the safe haven in the FATA, and has not developed a comprehensive plan reflecting the integration of multiple U.S. Government agency efforts. And I would like to know what it is that we are not doing, why it is we haven't been able to develop this comprehensive plan, what you see as the stumbling points in us getting there, and would be interested in knowing what you need in order for us to get there. And then lastly on the—again on the GAO report and the recent news out of Pakistan, open source reporting on the Taliban in the Swat Valley and the recent ceasefire that has been established.

And my read on that is it is going to give the Taliban some breathing room, and would like to know what your assessment is on that, and if, in fact, it will allow the Taliban to come back and be even stronger. And if so, what does that mean for our future in Afghanistan, especially with reports that we are moving more U.S. troops in there now, and how that plays with regard to this ceasefire. We seem to be acquiescing to a group that clearly is not in our best interests, does not have our best interests in mind.

The CHAIRMAN. Mr. Director, if you will take a couple of his points and then answer the rest for the record so that we have enough time for members to—thank you.

Admiral BLAIR. I will just go quickly. An integrated Pakistan strategy is what we are working on right now in the administration. We are part of it in the Intelligence Community. I agree with you we need to eliminate duplication. And as I said to Ranking Member Hoekstra, we will be in dialogue with the committee about that. And I couldn't agree with you more that helping Mexico work against the drug gangs is high on our list of priorities. And we will be putting additional emphasis on it.

The CHAIRMAN. Thank you. Mr. Thornberry.

Mr. THORNBERRY. Thank you, Chairman. Director, in your statement you say that sustained pressure against al-Qa'ida in the FATA has the potential to further degrade its organizational cohesion and diminish the threat it poses. So what happens if there is not sustained pressure, if it is relaxed in some way?

Admiral BLAIR. They get stronger.

Mr. THORNBERRY. And does the threat that it poses to us grow?

Admiral BLAIR. Yes.

Mr. THORNBERRY. You say a few pages later in the statement that al-Qa'ida leaders use this tribal area as a base from which to avoid capture, produce propaganda, provide training, and the rest

of the things. So is there any doubt in your mind that this tribal area of Pakistan is the focus of al-Qa'ida leadership, it is where they are, and where they run their operation from?

Admiral BLAIR. Right now that is where their headquarters is, Mr. Thornberry. And they have operated from other places in the past, in Africa. There are al-Qa'ida affiliates in the Maghreb in northern Africa, in Yemen, in Iraq. And so the most convenient and hospitable place for them right now is the place that you describe. But we are concerned about their ability to move around. It is kind of like toothpaste in a tube.

Mr. THORNBERRY. But based on your previous answer, my impression is that you believe it is important to keep that pressure on in this area, understanding that if we put enough pressure they may squirt out someplace else.

Admiral BLAIR. And that would be better for us. When they are moving, they are more vulnerable.

Mr. THORNBERRY. Okay. That be would better. Let me switch briefly to Iraq. The President said last night, he talked about ending the war, withdrawing troops. The press reports say that by August 2010, all combat troops will be out of Iraq—or that is the decision that the President has made. My question is, is there—I understand that 19 months was talked about in the campaign. My question is is there any intelligence basis to say August 2010, that is the date that we can have all our combat troops leave and the Iraqis can handle their security on their own?

Admiral BLAIR. There is an intelligence basis for the decisions that the administration is in the process of making and hasn't quite announced yet. And I would be happy to talk about those a little later on in closed session, sir.

Mr. THORNBERRY. Okay. Just thinking back, my perception is that in the course of Iraq situations have changed on the ground, and we were slow to recognize it and even slower to change our strategy to deal with it. I guess my concern is that if we get locked into some sort of campaign promise, somebody has got to be willing, if facts warrant, to walk into the oval office and say Mr. President, this would be a disaster if we hold on this arbitrary timetable. And it seems to me the only—one of the few people who can do that is you. Are you, and do you think the Intelligence Community is willing to take into account the facts on the ground and give that unvarnished truth if, indeed, facts do change?

Admiral BLAIR. Sir, I think the Intelligence Community has two roles in this policy process. Number one is where we are with a lot of policies with this new administration. When you make them, the Intelligence Community needs to be in there telling what the situation is on the ground, what are the likely consequences of alternative policies. And our—your Intelligence Community has been playing very strongly in that position now. Once a decision is made and a policy is announced, you know what your objectives are, you know what the time scale is, then the job of the Intelligence Community is to monitor the situation on the ground and say is that policy working. Is it achieving the things on the ground that it said it was going to? And I can assure you I will have no difficulty in being able to bring those judgments forward. And I would say the primary reason for that is that this President welcomes, welcomes

it. He doesn't want to walk into box canyons without somebody pointing them out to him.

Mr. THORNBERRY. I would just say we all welcome that, and we all need the best judgments that our community can provide. Thank you. Mr. Chairman, I yield back.

The CHAIRMAN. Thank you, Mr. Thornberry. Mr. Boren.

Mr. BOREN. Thank you, Mr. Chairman. I want to congratulate you, Director Blair, on your new position. I know you will do a fabulous job. I have a few points and then a couple of questions. You talked a little bit about energy in your opening statement. After this hearing, I am going to the resources committee and going to be visiting with some of our energy executives in the United States, one being based in Oklahoma that is drilling some offshore wells. It seems to me that some of the rhetoric that has come out of the administration could be detrimental to our national security in exploring all the natural resources that we have in the United States, especially natural gas, which is a big component, I think, of protecting us and using as a transportation fuel.

And as you mentioned, the prices have gone down, and that is good right now. But at some point, demand is going to pick back up, and we are going to be in the same position that we were when we had $147 a barrel oil. So that is one point. Second point, Guantanamo, I visited Guantanamo with then Chairman Duncan Hunter of the Armed Services Committee. We were there. Yes, maybe there were some problems. Yes, I understand that there was a public relations issue. But my concern is by closing that facility and not really having a plan to do something with these individuals, we are setting ourselves up for failure. And so those are my two points. But I don't need an answer on those. The questions I have, I am really focused on Africa. As a new member of the committee, that is where I am going to be turning my attention and AFRICOM. Two questions. One, the Intelligence Community has a shallow bench of experts on sub-Saharan Africa. How will the establishment of AFRICOM enhance the Intelligence Community's ability to understand and analyze developments in the region? That is the number one question. And the second question is about Zimbabwe. What do you think is happening on the ground there? And what are we doing to prevent any disaster if there is a real breakdown there? And what kind of humanitarian efforts can we do to stop that?

Admiral BLAIR. Sir, on the first question, any time that there is an executive branch action body like out of the Department of Defense or the Department of State it is a good thing for us in the intelligence world because it gives us somebody who is asking the questions. It really helps us focus our intelligence assets. So AFRICOM, I think, will be good because they are out there doing things to protect American interests. They will be asking the hard questions of the Intelligence Community. And that he helps us more than just sort of a general appreciation, which you need, but which doesn't really take you too far. On Zimbabwe, I would like to get back to you in more detail since I don't have a personal deep knowledge of that country. And I would like to reply a little bit later if I might.

Mr. BOREN. Okay. I look forward to working with you in the future and I yield back, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Boren. Mr. Miller.

Mr. MILLER. Thank you very much, Mr. Chairman. I too will be working with my colleague, Mr. Boren, and focusing on the continent of Africa as well and the new command that has been stood up there. But I would like to go back, if we could, to Guantanamo. And can you tell me any operational reason that Guantanamo needs to be closed?

Admiral BLAIR. I can tell you as an intelligence assessment that the damage it has done to the international American reputation makes it difficult for us to achieve objectives in other areas.

Mr. MILLER. It is a political reason, but not an operational reason.

Admiral BLAIR. I mean, it is a realistic reason. Countries won't deal with us. Our popularity is down. We don't have blue chips to trade for things we want in other areas.

Mr. MILLER. 30 days ago, the President did sign the executive order to close Guantanamo. What consultation was done with the Intelligence Community prior to the signing of that?

Admiral BLAIR. Full consultation. Meetings with the officials at the CIA, representatives in the drafting committees that draft the executive orders. There was good consultation.

Mr. MILLER. In looking at your opening statement, I didn't see anywhere in the statement, and if I missed it I apologize, that you talk about a potential—or the potential for a threat by bringing detainees from Guantanamo to the United States. And hopefully you are not asserting that there is no threat. Or have you given any thought to the consequences of bringing them here? Not necessarily the people from the inside breaking out, but the possibility of people on the outside wanting to come into the communities and disrupt things at the facilities.

Admiral BLAIR. You mentioned that yesterday, Congressman Miller. And I have been giving some thought to it. The primary objective of al-Qa'ida in the United States now is another spectacular, large people killing attack. That is what they seem to be thinking about. I will have to go back and see where the idea that you mentioned of trying to break in, rescue one of their colleagues, kill a lot of people is something that is worthwhile. But thank you for bringing that to my attention.

Mr. MILLER. Thank you, sir. Moving to Pakistan, the Zardari government, does he have the full support of the Pakistani Army right now?

Admiral BLAIR. President Zardari of Pakistan and the Army? I talked with General Kayani about 2 days ago, and he supports his President. So that much is sure. And that much is important.

Mr. MILLER. What is the Intelligence Community's assessment of the stability right now in Pakistan that you can give in an unclassified setting?

Admiral BLAIR. I would rather give details in a closed session, if I might, Congressman Miller, but it is one of the countries that we feel is dealing with a larger number of problems than most. It is a very important country, as you know. So there is a cause for quite a bit of concern when you have that combination of impor-

tance and pressures, economic pressures, governance pressures. We talked about the terrorist pressures in a rough part of the world. So it is a country that we need to watch closely.

Mr. MILLER. You know, I think one of the biggest disappointments that I have had in watching what has happened in Afghanistan in particular is our feeble at best attempt to eradicate the poppy crop. We have spent hundreds of millions of dollars. And now it appears that opium and the level of poppy production has reached all time levels. Can you give me an idea as to why we cannot get a handle on that issue?

Admiral BLAIR. I have watched various campaigns over the years against both opium crops and against cocaine problems. And it seems that they have to be multi-pronged. There is no silver bullet. They have to be prolonged. And trying to find that right combination is difficult. And you fail more times than you succeed. So I would basically say it is a hard problem when the profits are so high, the alternatives are so few, and so many people are on the take because of the money involved. So I think it is a hard problem that we haven't found the right key to yet.

Mr. MILLER. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Miller. Mr. Schiff.

Mr. SCHIFF. Thank you, Mr. Chairman. Mr. Director, thank you for being with us. I want to follow up a bit on our conversation yesterday on the detainee issue and also on Somalia. I will be sharing with you and your staff, as we discussed, some legislation that I intend to introduce later this week or next week.

Admiral BLAIR. Thank you.

Mr. SCHIFF. But I wanted to just amplify a little bit more on it. I think that the people detained at Guantanamo should be given another status review, not use the same military commissions and tribunals that were established under the last administration, but by expanding the jurisdiction of the military courts martial to do status reviews. I think it is a natural venue to do that. I also think those who are determined to be unlawful combatants, and are therefore subject to prosecution on top of their combatant status, those prosecutions could, by and large, go forward in the military courts martial. Some may be appropriate to be tried in Federal district courts.

I would think these combatants would be better suited for trial in the military courts martial. But there will nonetheless be both detainees at Guantanamo who will be determined to be unlawful enemy combatants, and therefore can be legally detained without charges based on their status for the duration of the conflict or until they are no longer a threat. And the question becomes where should they be detained? And what I would like to throw out that this is one of the options that my legislation would allow, among many others, is to establish a NATO-run detention facility in Afghanistan to internationalize the detention of unlawful enemy combatants.

It is a coalition effort in Afghanistan. There is no reason why the United States should be solely responsible for the detaining of unlawful combatants. I think it would address a lot of the international issues that you alluded to in answer to Mr. Miller's questions. If because of the black eye of Guantanamo we can't get co-

operation from allies in intelligence operations, that is not a theoretical or political impact, that is a very real impact on our ability in the war on terror.

I think the idea of establishing a NATO detention facility also has the advantage that we are not just dealing with Guantanamo detainees, we are also going to be dealing with prospective detainees. And while all the focus right now is on what do we do with the hundreds of people at Guantanamo, the reality is both in Iraq and Afghanistan and down the road probably elsewhere, we are going to have people being detained as unlawful combatants who won't be brought to Guantanamo anymore. And if they are detained, for example in Afghanistan, who should be detaining them?

Now, it may be that some we will want to detain. It may be others we would want to detain in an international setting. So I would throw out that as a possibility. There are many of our NATO allies who are not able politically or otherwise to subject their troops to combat operations. This could be a valuable service they could provide. It wouldn't be easy, being in charge of detaining very dangerous people——

Admiral BLAIR. Right. Right.

Mr. SCHIFF [continuing]. But would be a very valuable service that they could provide. So I throw that out there. I also wanted to touch on your thoughts both on that as well as this. I want to follow up on Somalia, which as I mentioned to your colleague at CIA yesterday, is something I have been concerned about for a number of years as if I had to choose the next best alternative or the next, you know, greatest candidate for the next Afghanistan, it would be Somalia. I think our intelligence efforts to ascertain who in Somalia we can work with and who truly is affiliated with al-Qa'ida are going to be very important, not lumping all the Islamic parties there together. I would love to get your thoughts on both those issues.

Admiral BLAIR. Yes, sir. As you know, one of the three executive orders is directed to exactly the question that you raised, what do we do going forward? That is with new detainees that we may capture or with the ones who are after some fashion it is determined that they should not be released. The Justice Department heads that. We participate in it. And we will ensure that the imaginative ideas that you described are in the mix. And I have heard some other excellent ideas from other Members of Congress. And I really appreciate the thinking that has gone on here, as well as in the task forces. And we will make sure that is in.

On Somalia, I mean I think you are making the exact point that Congressman Thornberry made, which I very much agree with, that you can't just look at one place here when you have all of these other potential spots. And frankly, Somalia has been a no man's land here for what, 10, 15 years. The Ethiopians came in, it was a tough row for them, and they are just completing their withdrawal. It is a patchwork of a country now with some law and order in the north, none in the south.

So I think that as part of our—yes, it is against al-Qa'ida, but in general, bad things happen in these ungoverned areas of the world. And we have to look at the Somalias, the Yemens, as well as the FATA areas and have a comprehensive approach to improv-

ing conditions in them so that they aren't breeding grounds for not only al-Qa'ida, but for human misery and potential starvation, the sorts of things that drew us into Somalia 20-years ago. So it is something that is on the radar screen that needs to be part of the strategy, and I thank you for bringing attention to it.

Mr. SCHIFF. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Schiff. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. Admiral, welcome aboard.

Admiral BLAIR. Sir.

Mr. CONAWAY. I just got here as well. So I am looking forward to the service. You mentioned a phrase a while ago, al-Qa'ida in America. Did you mean like al-Qa'ida in Iraq? Is there actually a formalized organization of al-Qa'ida in America here or were you just saying it?

Admiral BLAIR. I must have either said it wrong or——

Mr. CONAWAY. You said the intent of al-Qa'ida in America is to——

Admiral BLAIR. I am sorry. I said of al-Qa'ida, in America as a target.

Mr. CONAWAY. Thank you.

Admiral BLAIR. But there are, in fact, al-Qa'ida sympathizers in this country who would be involved in such an attack. So, no, we haven't formed a phrase like that, but it is a real problem.

Mr. CONAWAY. Okay. All right. America bashing is a very popular sport. Always will be. I mean, envy is something that gets involved. You know, currently Guantanamo Bay is kind of a lightning rod for any excuse to not do something that somebody really didn't want to do anyway. Okay, we do agree with Gitmo, which I disagree with, but let's do away with that, there will be other things we do in our own best interests that our allies and many of our enemies will be able to point to and say, well, but for that we would do what you want us to do. We would take over the prison in Afghanistan but for whatever. Should we make it a practice of constantly deferring to "world opinion" to do things that aren't in our best interests?

Admiral BLAIR. I am going to step out of my intelligence role for just a second because I have been sort of in the operational role, and say there is going to be a certain amount of America bashing going on because we are the most powerful country. I think, though, that you shouldn't make yourself an easy target for things that you can fix, that when you do act unilaterally it ought to be for a really good reason. And you will find in many cases that other countries will rally around strong leadership properly directed towards common goals. So, no, we should not be run by international opinion polls. But we should be protecting our country's interests.

Mr. CONAWAY. Okay. I understand there is a tension there.

Admiral BLAIR. Yes, sir.

Mr. CONAWAY. But by the same token, we can't use that as our own excuse to do something that is not in our own best interests simply because somebody else somewhere doesn't like us. The President mentioned last night he is intending to dismantle the Cold War weapons systems to pay for everything else that is going to get done under what he is doing. Anything in the IC community,

or the Intelligence Community that is Cold War weapons system-like that he is intending to dismantle or to take a dividend out of?

Admiral BLAIR. Unfortunately, many of those Cold War systems are aging out, like satellites and things like that, and need to be replaced. And we are in the midst of some tough decisions on electro-optical satellites, in particular, that we have to make. I can assure you that as we make those decisions we are looking to the future, and not to the past in terms of—and for intelligence there is a fundamental difference in the Cold War. The enemy was hard to find and easy to kill.

In the new situation it is hard to find. I mean it was easy to find and hard to kill. You know what—al-Qa'ida in America, those guys. But we knew where the enemy was, we just had to bring a lot of firepower to bear. Now the burden on intelligence is very much higher because of the smaller, individual nature of the targets, their ability to hide, move across borders. So it takes a different kind of intelligence system to do that.

Mr. CONAWAY. In that regard, and again you have only been there a very short period of time, are there gaps that you feel comfortable talking about in this forum, and where additional resources are in fact needed to protect this country so that the intent of al-Qa'ida in America—al Qaeda's intent in America is not fulfilled?

Admiral BLAIR. Yes, sir, there are gaps. I would rather talk about them in closed session if I might.

Mr. CONAWAY. All right. Admiral Blair, I look forward to working with you. Thank you. I yield back.

The CHAIRMAN. Thank you, Mr. Conaway. Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman. Director, thank you for being here and for your service. I want to turn my attention to the issue of cybersecurity. We had a brief conversation about it yesterday, but for the committee and for the public, I want to get your thoughts again on this issue. I have paid a lot of attention to cybersecurity, and I appreciate the fact that you raised it in your opening statement here this morning. As I mentioned to you yesterday, I have spent the last 2 years chairing both a Homeland Security subcommittee on emerging threats and cybersecurity, and then as one of the four co-chairs on the CSIS Report on Cybersecurity for the 44th Presidency. And I am pleased with its findings, and I hope that the administration is going to adopt many of the recommendations that are contained in the report. I know that right now the administration is doing a 60-day review of its cybersecurity strategy, and I applaud the appointment of Melissa Hathaway as the director for cyberspace in the NSC. It is my hope that this position will actually be elevated and will be a special assistant to the President. But can you give us at least a preliminary overview of your—how you believe the cybersecurity strategy will be structured? And in particular, where will it be housed?

The previous administration put a lot of the focus and responsibility for securing cyberspace in the Department of Homeland Security. While I have great respect for the men and women that work in the Department, it is clearly still struggling to stand itself up, and in my opinion, was not the proper place to house the major responsibility for cybersecurity. I personally think it needs to be co-

ordinated out of the White House, with both policy and budgetary authority across a range of responsibilities in government.

But can you share with us, at least on a preliminary basis, your vision for how our cybersecurity strategy will be conducted, what it will look like? And also talk to us about what you see as where the greatest threats would come from? I have been stunned by the amount of penetration across Federal networks in cyberspace and our U.S. assets, as well as the amount of data that has been exfiltrated from those networks. It is absolutely stunning, and an issue that had been ignored for many years at our own peril. We are finally paying proper attention to it, but I would like you to share your thoughts on some of those issues. Thank you.

Admiral BLAIR. Thank you very much. I think there is one key aspect of this future cyber strategy which this committee and your counterpart in the other body can really help us with, and that is the role of the National Security Agency outside of the intelligence, its intelligence functions. I agree with you the Department of Homeland Security is finding its footing in this area. The National Security Agency has the greatest repository of cyber talent. With due respect to Congressman Hastings' 23-year-old new hire, there are some wizards out there at Fort Meade who can do stuff. I think that capability should be harnessed and built on as we are trying to protect more than just our intelligence networks or our military networks, as we expand to our Federal networks and to our critical infrastructure networks. And the reason is that because of the offensive mission that they have, they are the ones who know best about what is coming back at us.

And it is defenses against those sort of things that we need to be able to build into wider and wider circles. I think there is a great deal of distrust of the National Security Agency and the Intelligence Community in general playing a role outside of a very narrowly circumscribed role because of some of the history of the FISA issues in years past, general distrust of having—I mean, the NSA is both intelligence and military. You know, two strikes out in terms of the way some Americans think about a body that ought to be protecting their privacy and civil liberties. I think you all know that the fact of the matter is that the NSA, in fact, the entire Intelligence Committee operates under very strict rules. Sometimes people don't follow them, but we find them and we hold them to account.

So I would like the help of people like you, who have studied this closely and served on commissions, the leadership of the committee in finding a way that the American people will have confidence in the supervision, in the oversight of the role of NSA so that it can help protect these wider bodies. To me that is one of the key things that we have to work on here in the next few months.

Mr. LANGEVIN. Right. And I know my time has expired, but I just want to say that I agree with your assessment about the NSA. I think a great disservice was done to the hardworking men and women at the NSA and in the Intelligence Community because of the FISA issue. And it was more the issues that took place at the very top levels of our government, and not the hardworking men and women who worked there. They do have great capabilities. There is great professionalism, and they need to play a very strong

role in securing us in cyberspace. I look forward to our continued discussion and work on this issue.

Admiral BLAIR. Sure.

Mr. LANGEVIN. Thank you.

The CHAIRMAN. Thank you, Mr. Langevin. Before I go to Mr. Kline, I just want to remind members we will probably be voting between 11:00 and 11:30. We should be able to complete the open hearing before then. And then we will reconvene for the closed session at the Capitol. And lunch will be available for members. Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman. Good morning, Director. Welcome. I want to pick up, if I can, with the discussion we had yesterday, to the extent that we are comfortable talking about it in this open forum, and that is the issue of interrogation techniques. Much public relations discussion about those for the last few years. Arguably some uncertainty about what those techniques should be. I think most Americans thought that the President of the United States, President Obama had cleared that up and announced that everybody was going to use the Army Field Manual. Everybody in the Intelligence Community, everybody in the military was going to use the Army Field Manual for determining what those interrogation techniques could be. Could you talk about whether or not that perception is correct and what the status is of dealing with the question of interrogation techniques?

Admiral BLAIR. Yes, sir. I would like to clear that up. The executive order specifies that the Army Field Manual will be the basis for interrogation techniques used across the government. That is by the Intelligence Community as well as by military interrogators. But it also specifies that that manual will be reviewed so that it meets the unique requirements both of intelligence and——

Mr. KLINE. Okay. Thank you. I just kind of wanted to get that on the record, because I believe what your answer is is that we do not know right now what the interrogation techniques are, and that the Intelligence Community is not bound by the strict interpretation of the Army Field Manual, which was the widely held public perception. And so there is an evaluation process that is ongoing, is that correct, to modify or expand?

Admiral BLAIR. To review.

Mr. KLINE. To review.

Admiral BLAIR. But right now pending that review, the Army Field Manual techniques do apply to the Intelligence Community. So you are correct in that right now today, tomorrow it is the portions of the Army Field Manual, which as you know it is a human intelligence manual——

Mr. KLINE. It is.

Admiral BLAIR [continuing]. Of which interrogation is a part, not the whole, but those procedures govern Intelligence Community interrogations. That will be adjusted pending the results of the review.

Mr. KLINE. Pending adjustments. Okay. Thank you very much. Let me move to domestic intelligence, if I could, just picking up on Mr. Hoekstra's comments and others that Congress is viewed, and I think the 9/11 Commission report called on your office to be a coordinating office to break up the stovepipes that so hampered us

on 9/11, where we had rules that forbade the FBI from talking to the CIA and so forth. And now I am from Minnesota, and we are very much aware that a refugee from Somalia left Minnesota and went overseas and blew himself and others up. So there is a question about the radicalization of some in this country.

Minnesota happens to have a very large Somali population. Certainly not all those Somalis are radical by any stretch of the imagination, but clearly there is concern. We see about it constantly in the papers back in Minnesota. That story is prominently displayed. There are some fears in Minnesota. And I think that we should all be alert to that. But that raises a question of what do we do about that? That is an issue here in the United States. But we have now a number of organizations, Department of Homeland Security, FBI, CIA and an others. How is your organization now equipped, how do you feel like it is doing—I know you just got there—but in that ability to cross those lines so that we are not caught with our feet sort of nailed to the floor?

Admiral BLAIR. I am—that is a high priority problem. And I have looked into it in some depth in my first few weeks on the job because of the importance. And I would like to provide details in closed session. But I think you would be pleased as to the flow of information between the FBI intelligence agents, who have the authority to operate in this country, and the rest of the Intelligence Community, which gathers intelligence and takes action overseas. The vehicle for that exchange, at the cap of is the National Counterterrorism Center. And I urge you to come out for a visit when you can, because you will find that the exact domestic-international connection that you are questioning, you will see how it is done physically with a row of FBI analysts interspersed with rows of analysts from other communities. And individuals are tracked very closely.

So the structure is very much there in place. And in addition, there are other ways to communicate down to State and local levels. You will hear different stories from people who operate at State and local levels. The old joke we are from Washington, we are here to help you is alive and well in many. But I think if you poke at it you see a steady improving trend. I would say it is one of those things that I feel sort of good about, but you just don't feel really good about it because of the possibility that you are missing something and the memory that we all have of what happened in 2001.

Mr. KLINE. Right.

Admiral BLAIR. But we can talk about that more, but I think it is basically a good news story, sir.

Mr. KLINE. Thank you. And I am looking forward to that visit. Again welcome aboard, and I yield back.

The CHAIRMAN. Thank you, Mr. Kline. Ms. Schakowsky.

Ms. SCHAKOWSKY. Mr. Chairman and ranking member, first let me thank you so much for having this open hearing. I think it is incredibly useful for the American people to hear what I think, Director, has been a very constructive dialogue, that we have been able to raise a lot of concerns. You have been able to respond to a lot of them. And even when you can't, I think the fact that we have outlined and somewhat demystified what the Intelligence Community is doing that the American people get a chance to see

you and understand much better your functions and who you are as a person. And I want to encourage you, Mr. Chairman, to consider this kind of format going forward more extensively than we have used it in the past.

And I wanted to suggest, Director, that we also look at the issue of classification more carefully. There have been times when we have been presented with documents and information where members have kind of shaken their heads and wondered why is this classified information. I think the more that these issues are aired where we can, the better off we are as a Nation. And I know that the President has made transparency a hallmark of his administration. And I think that does require looking at classification. I wanted to ask a number of questions. Maybe you can answer them here and maybe not. One is about the issue of the prison at Bagram in Afghanistan. And I know that there has been a ruling about that, that those who are incarcerated cannot challenge their incarceration.

I am concerned that there are, in fact, some innocent people in Bagram. And I just wonder what the future is there for those who are detained by the United States. And secondly, you outlined as the primary near term security concern of the United States the global economic crisis and its geopolitical implications. I know that the President has emphasized the need for the United States to act to prevent humanitarian crises, which I think we may see growing now around the world, the idea of economic refugees and all kinds of instability that may be created, humanitarian crises that go beyond that like what we see in Sudan. What I am wondering is how can intelligence capabilities provide early warning of humanitarian crises so that U.S. policymakers, the Intelligence Community can devise strategies to prevent or respond to such crises?

Admiral BLAIR. Ma'am, on Bagram I think the exact same sort of issues are there as—not the exact same, but many of the same issues are there as are being sorted out in relation to Guantanamo. And I think those principles will have to be applied to those who are detained there. So that will have to follow in due course, the issues of process, the issues of long-term detention for those who need to be held. On the humanitarian situations, we have an actual unit within the Intelligence Community whose job it is to monitor the world for disasters that rise to that level. A great deal of that information is available from other organizations that are not involving secret intelligence, but there are some things that we can do with our collection mechanisms. That is put together, and we provide routine warnings of that so that we are not caught unawares.

Ms. SCHAKOWSKY. Thank you.

The CHAIRMAN. Thank you, Ms. Schakowsky. Mr. Ruppersberger.

Mr. RUPPERSBERGER. Yes. I would like to get back into the area of cybersecurity. Mr. Langevin brought up the issue. It is something extremely important to our national security, to our business community, to our privacy generally. There was a comment that people do not really trust some of the things that happened at the NSA, and it is unfortunate. NSA is in my district. I chair the subcommittee that oversees them. And they are some of the finest, hardest working people. And if they could talk and let the public

know what internal mechanisms they have to protect Americans and to follow the Constitution, we would be a lot better off. But they couldn't even defend themselves when all the FISA issues were going on.

I have been there for a period of time, I go there a lot, and I have never seen anything that violates the Constitution. With that said, one of the biggest issues we do have to deal with is the public, and educate the public what cyber is about. And I think in order to do that we have to tell some of the stories that have happened with cyber attacks, how Russia literally closed down Estonia's banking system because there was a battle about a statue that Estonia was taking down. When Russia attacked Georgia, they cyber attacked and got into their communication systems and banking systems again.

There are a lot of classified issues, but I can say there have been many newspaper articles about attacks in our Pentagon, about NASA, about how possibly China and Russia, if they have been able to attack NASA, that they have been able to save billions of dollars in research that we have done. Our business community and business secrets. And if you have a server, say in a bank in North Dakota, rural area, and that bank does one transaction with Bank of America, the bad guys could get in through that server and literally shut down a lot of Bank of America.

These are the stories that the public needs to know, because the public doesn't have a clue, in my opinion, how serious this cyber attack is. The good news is President Obama has been briefed. He gets it, he understands it. You have people, I know Mr. Schiff and I have been to NSA being briefed on this issue, Mr. Langevin has a lot of expertise in this area. So we plan to really, from the technical point of view, look at some of the issues that are there. But in your job, and where I really want to ask the question, do you feel the mechanism is in place, and I believe it is a good move to bring Melissa Hathaway who probably has as much knowledge on cyber, and also General Alexander, who is as good from a technical point of view as anybody in this country, with those two people working with us and the present administration, I think we can come a long way.

But where do you feel in your role as DNI that we need to go to deal with the cyber issue? And including with that is billions of dollars of money that are going to have to be put out there and the partnerships between the Verizons, the Microsofts, the AT&Ts. And I would like to hear your opinion, what you can do in an unclassified where we need to go. Is the threat real? And what are your recommendations?

Admiral BLAIR. Sir, I agree with you that we need to have open descriptions of some of the damage that have been caused by recent attacks. And I am sure, having seen the inside story, you know that that is a fairly complicated process to sort all of that out, particularly attribution. And I think it is important to write these stories more on the fact of what happened than who the individual perpetrator was for that one, because there can be many, as you know.

Mr. RUPPERSBERGER. It could be al-Qa'ida, it could be other countries. One thing I want to point out that I think is important, since

this is a public hearing, we don't own the Internet. So it is not as though we are controlling the Internet. We just have to protect ourselves from these invasions.

Admiral BLAIR. I think you have that right, yes, sir. We play a big role in the Internet. As you know, it is an international body that governs it. I think on the second point you make is also absolutely vital, is that this has to be a public-private——

Mr. RUPPERSBERGER. Partnership.

Admiral BLAIR [continuing]. Public-private partnership to move forward, because the owners of most of the servers and fiber-optic cables and all are private companies. On that front, there is also some good news, because through some of the initiatives that General Alexander, whom you know, started, we have good relations with the big IT software developers and vendors in a body that is actually organized that we in the Intelligence Community and others play a role in to tackle these problems together.

And I think both common solutions, and also, frankly, I would like to bring in some business executives into government to take jobs on the inside to help us with their knowledge on the outside. So I think all of those are essential to solving this problem.

Mr. RUPPERSBERGER. Okay. Well, there is a lot of work to do, and I look forward to working with you.

Admiral BLAIR. Yes, sir.

The CHAIRMAN. Thank you, Mr. Ruppersberger. Votes have just been called, and I would remind members that the new policy is they will go 2 minutes beyond the 15 minutes. At least that is what we have been told. I have got Mr. Holt and then Ms. Eshoo.

Mr. HOLT. Thank you, Mr. Chairman. And Mr. Director, again, congratulations. You have a lot of the skill and background necessary to do a good job in this position. And we wish you well, want to work with you. Since this is an overview today, I would like to ask an overview question about the relationship between the Intelligence Community and Congress. The 9/11 Commission recommended strongly that Congress show more oversight of intelligence activities. So let me ask several questions. I will ask them all at once, and then you can—do you think that vigorous Congressional oversight benefits the efficient functioning of the Intelligence Community or could you operate better without Congressional questioning about the workings and the activities of the IC? I think of that as a softball question, but it is important to answer I think.

And do you and the DNI staff think that in recent years Congress, and by that, I really mean the duly sworn members with responsibility for intelligence, that Congress has received all the information and cooperation it needs to conduct full and appropriate oversight? More specifically, was it appropriate not to brief members about President Bush's domestic electronic surveillance? Was it appropriate not to brief all members about certain covert activities in the Middle East and Latin America? Was it appropriate not to seek advice in these areas? Would you do anything different?

Admiral BLAIR. Sir, for those questions I am reminded of that song, some kind of help is the kind of help that help is all about, and some kind of help is the kind of help that we all can do without. And I think vigorous, effective oversight of the right kind is nothing but good for our community. And I think we are working

it out. We are a new administration. There is some new members of the committee. There are some veterans here. And I think as a background thing I should say my pledge is to make it as a good a partnership as possible. And I think if you talk to those who serve on your counterpart committees who have dealt with the Armed Forces, you will find that my reputation is one who probably says more rather than less to Members of Congress, because I understand who pays the bills and who has the oversight responsibilities. So that is kind of my going in——

Mr. HOLT. So more specifically, was it appropriate in those circumstances that I mentioned? I think you know what I am talking about.

Admiral BLAIR. Right. And on that question of fully and currently informing the committees, I follow the law, Congressman Holt, that says you will be—this committee will be fully and currently informed of intelligence activities.

Mr. HOLT. So you would do it differently. In other words, it was inappropriate you are saying not to brief Congress about that surveillance program? It was not appropriate not to brief all members about these covert activities that I think you and I know what we are talking about?

Admiral BLAIR. I would really rather talk about going forward rather than looking back. Because that is what I can affect, sir. And I will be leaning forward, I will be leaning on the side of consulting more rather than less. But there is a category of sensitive covert actions, which, as you know, is covered by a separate article of the statute, which I am also aware of and which I feel has to be observed.

Mr. HOLT. Yeah, which I mean—what I am talking about, I just want to set some benchmarks here.

Admiral BLAIR. Right.

Mr. HOLT. Because what I am talking about, you know, we were not briefed at all. No one. Not a committee member, not a committee chair, no one. Was that appropriate?

Admiral BLAIR. There is no case that I know of in which no one should be briefed about an intelligence activity——

Mr. HOLT. That helps.

Admiral BLAIR [continuing]. In this Congress.

Mr. HOLT. How am I doing on time, Mr. Chairman?

The CHAIRMAN. You have less than a minute.

Mr. HOLT. Less than a minute. Well, let me ask for the record then you have listed a number of specifics. If you were to look at all of the risks, threats, events that might affect Americans and multiplied the likelihood of these events occurring times the number of Americans affected, what would you rank as number one, two and three? And is the allocation of resources within the Intelligence Community, how does that match for those three? So whether we are talking about climate change or theft of nuclear weapons from Russia or Pakistan and the use of those weapons, or a series of al-Qa'ida terrorist attacks on the U.S.——

The CHAIRMAN. If you can hit just a couple of those, because I want to leave time for Ms. Eshoo so we finish up the open session.

Admiral BLAIR. Yes, sir. I will just say quickly that the greatest, the greatest threats I think do lie in that convergence between

nonstate actors and weapons of mass destruction. And, you know, what would be the factors on likelihood and casualties I think we probably ought to talk about in closed session. But it is people who are not deterrable getting ahold of weapons that can cause a lot of deaths.

Mr. HOLT. So if you could look at the top three later and tell us how you think the match of resources, the allocation of resources matches.

Admiral BLAIR. Yes, sir.

The CHAIRMAN. Ms. Eshoo.

Ms. ESHOO. Thank you, Mr. Chairman. Good morning, Mr. Director. The last question really segues very well into mine. I think the ultimate nightmare and Intelligence Community challenge is nuclear weapons and materials falling into the hands of those that want to destroy us, which leads me to Pakistan. I think that Pakistan poses an enormous challenge to us, along with Afghanistan, and I think they are tied in many ways. So I have two questions about it, and I think we can follow up on this in other forums, probably classified as well. But A.Q. Khan was released by the Pakistani Government from house arrest earlier this month. I was shocked and appalled when that was announced.

So my question to you is does he still pose a proliferation threat in the eyes of the Intelligence Community? Do we know about any restrictions that may still be in place relative to this man that a colleague of mine dubbed the Johnny Appleseed of nuclear materials and information? And do we know what level of access he still has? So that I would like to ask you. And my second question, which you can answer maybe for the record later on is—and you touched on it earlier, I believe—is on climate change.

There are many of us that have worked very hard on this issue. And to the credit of your predecessor, he agreed for the Intelligence Community to produce an NIE. I would like to know what your plans are for the ongoing effort within the Intelligence Community, and what the resources are that you are going to commit to this. Because there isn't any question in my mind and many experts' minds that the destabilization that is brought about as a result of climate change has a nexus to the Intelligence Community and vice versa.

Admiral BLAIR. On those two questions, ma'am, on A.Q. Khan, I would rather answer in closed session in more detail, but it deserves an answer in open forum, which is that there are restrictions on him imposed by the government. And that they primarily involve ensuring that he is not connected to the network that he used before for the proliferation activities that you referred to. And I can tell you in detail. But he is not the head of a laboratory, which is in the business that he was in before. On climate change, I think that the way the Intelligence Community is approaching it now is correct. That is we are not funding scientific research on the important questions involved in it. We are looking at, with the range of predictions that are being made by science, what would be the national security effects of this issue?

Ms. ESHOO. There is a whole pool of expertise that has existed within the Intelligence Community. And so I think maybe we need to follow up on that——

Admiral BLAIR. Right.

Ms. ESHOO [continuing]. On how you are going to capture that and keep it moving. I don't think it just rests under a statement of recognition that this poses a threat. That is not good enough. And we have tremendous resources. So we can follow up on that.

Admiral BLAIR. All right.

Ms. ESHOO. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ms. Eshoo. And there is less than 4 minutes left, but 400 members yet to show up to vote. So we will at this point conclude and adjourn the open hearing.

Mr. HOLT. Mr. Chairman? Since there seems to be a moment, may I follow up on——

The CHAIRMAN. Very briefly.

Mr. HOLT. Very briefly. There is precedent for making the Intelligence Community resources available for climate change studies, the so-called MEDEA project.

Admiral BLAIR. Right.

Mr. HOLT. To what extent is that approach being revived? To what extent should it be revived, making available the various resources of the Intelligence Community?

Admiral BLAIR. That is a good question. Let me look into that and get back to you and Congressman Eshoo, please, since I don't have that on the tip of my fingers.

The CHAIRMAN. Thank you, Mr. Holt. And thank you, Director Blair. And with that, the open hearing is adjourned, and we will reconvene after votes for the closed session at the Capitol.

[Whereupon, at 11:04 a.m., the committee was adjourned.]