

**MINIMIZING POTENTIAL THREATS FROM IRAN:
ASSESSING ECONOMIC SANCTIONS AND OTHER
U.S. POLICY OPTIONS**

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

**EXAMINING HOW THE UNITED STATES CAN USE SANCTIONS AND
OTHER FORMS OF ECONOMIC PRESSURE TO PREVENT IRAN FROM
ACQUIRING A NUCLEAR WEAPONS CAPABILITY**

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JULY 30, 2009
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MINIMIZING POTENTIAL THREATS FROM IRAN: ASSESSING ECONOMIC SANCTIONS AND OTHER U.S. POLICY OPTIONS

THURSDAY, JULY 30, 2009

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:04 a.m. in room SD-538, Dirksen Senate Office Building, Senator Evan Bayh, presiding.

OPENING STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. The Committee will please come to order. I am pleased to call to order this hearing of the Senate Banking Committee which will focus on how the United States can use sanctions and other forms of economic pressure—

Senator CORKER. Your microphone.

Senator BAYH. Ah, great. Thank you. I am grateful that you are interested in what I am saying, Bob.

Senator LIEBERMAN. It is very good to see the spirit of bipartisanship at the outset.

Senator BAYH. Absolutely. No one goes without an adequate hearing in the Banking Committee, Joe. Thank you, Senator.

I am pleased to call to order this hearing of the Senate Banking Committee which will focus on how the United States can use sanctions and other forms of economic pressure to prevent Iran from acquiring a nuclear weapons capability.

I want to begin by thanking our Chairman, Senator Dodd, for his assistance in arranging this hearing and for his support and leadership on this important issue and his staff and the staff of the Banking Committee as well. We all know that Senator Dodd has many other demands on his time, and his willingness to schedule this hearing, despite those demands, demonstrates his commitment to confronting this serious threat.

As we gather here today, there is perhaps no challenge more pressing or vexing than Iran's pursuit of nuclear weapons. The extent of the threat is well documented. The Iranian regime has refused to cease its illicit nuclear activities in defiance of multiple U.N. Security Council resolutions. It is the world's foremost state sponsor of terrorism, and it has provided arms and training to dangerous terrorists groups in Iraq, Afghanistan, Lebanon, and the Palestinian Territories. And as we have all observed so vividly in the past few weeks, it is engaged in brutal repression of its own citizens.

If this regime were to acquire nuclear weapons, it could spark a dangerous arms race in the Middle East, do irreparable damage to the global nonproliferation regime, and pose a serious threat to the security of the United States and our allies. In confronting a threat of this magnitude, a sense of urgency is in order.

I know that many Senators share my concerns about Iran, as is evidenced by the legislation this Committee has considered over the past several years. Last year, Chairman Dodd put forward a sanctions bill that included some very noteworthy measures. More recently, I introduced legislation with Senator Kyl and Senator Lieberman called "The Iran Refined Petroleum Sanctions Act." This bipartisan bill would give President Obama expanded authority to target what has been described as Iran's Achilles heel: its dependence on imported refined petroleum products.

Our bill has since won the support of 71 Senators from across the ideological spectrum. This hearing, however, will not focus exclusively on any particular legislation; rather, we will focus more broadly on the relative advantages and disadvantages of different forms of economic pressure.

We are fortunate to have with us today several noted experts who have agreed to share their views on how the United States can best use economic pressure as a tool to advance our interests with respect to Iran. As we consider this question, we should keep in mind that when it comes to Iran's nuclear program, there are, unfortunately, no easy answers.

Accordingly, all of the different approaches we will explore today are bound to have some drawbacks, and we are likely to be faced with a choice among difficult options. I firmly believe, however, that using economic pressure is far superior to the extreme alternatives of standing idly by as Iran goes nuclear or relying solely on a potential military strike, which could have grave consequences and should be contemplated only as a last resort.

As we consider our various options, we do so in cooperation with President Obama's historic outreach to Iran. This outreach has demonstrated to the Iranian people and the international community that the United States is prepared to engage in direct dialog to resolve our differences between our two countries. The President's offer of engagement has also put the regime on the defensive and made it more difficult for Iran's leaders to blame the West for all of their problems.

While I have supported the President's outreach, I believe that we have been wise to set a deadline for Iran to accept his offer. I am also pleased that the Senate last week unanimously adopted a resolution that I put forward, once again with my friends Senator Lieberman, Senator Kyl, and Senator McCain, that reinforced the deadline by making it clear to the Iranians that they have until the G-20 summit at the end of September to agree to negotiations or else to face sanctions.

While I sincerely hope that Iran's leaders seize this historic opportunity for dialog, I believe that prudence demands that Congress begin to lay the groundwork for a different approach should Iran continue to reject meaningful negotiations. Such preparations will demonstrate to Iran's leaders that there will be grave con-

sequences if they do not agree to forego their drive for nuclear weapons.

To put it even more bluntly, if Iranian officials are unwilling to sit down at the table and negotiate, then Congress is prepared to authorize what Secretary of State Clinton has referred to as “crippling” economic sanctions.

With each day that passes, Iran is installing more centrifuges and producing more fissile material. According to published reports, they have now accumulated enough low enriched uranium for a nuclear weapon should the regime decide to develop one, and by next February, they will have enough for two weapons.

Conversely, our window of opportunity to stop Iran from acquiring nuclear weapons is rapidly closing. The clock is ticking, and at some point it will run out. As we have seen with India, Pakistan, and North Korea, the clock can often run out sooner than we think, with grave consequences for the region and the world.

I hope that today’s hearing will help underscore the depth of the Senate’s concern over Iran’s nuclear program and will demonstrate to Iran and to the international community that Congress is prepared to act.

As I have previously mentioned, we are fortunate to have with us today a distinguished group of panelists, beginning with our friend and colleague Senator Lieberman. But before we hear from them, I would first like to give my distinguished colleagues an opportunity to share their thoughts, and we will begin with my friend and colleague, our Ranking Member, Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Once again, the Committee meets to hear testimony on Iran’s support for terrorism and its determination to develop nuclear capability. This time, however, we meet at a time that is marked by weeks of unprecedented social, economic, and political upheaval in Iran. While many things remain unclear about Iran and its future, two remain very clear: Iran’s nuclear ambitions and its sponsorship of terrorism.

Iran continues to make strides in both its nuclear and missile programs, and it is still recognized as the so-called central bank for terrorist financing. Over the years, various administrations have attempted, with little or no success, to moderate the regime’s nuclear aspirations and to curb its support for terror. Certainly time and experience have shown that economic sanctions can be a mixed bag as a foreign policy instrument. Sanctions and other financial measures, directly or indirectly, have restrained some of Iran’s activities. But we have yet to implement a sanctions regime that produces the desired result. It has become clear that we need a fresh approach and that stricter controls may be necessary.

I appreciate our witnesses’ willingness to appear before the Committee today. I cannot help but note, however, that the current administration is not represented at today’s hearing. The members of this panel will undoubtedly provide valuable insight on the previous administration’s efforts. Current officials, however, would certainly be in a better position to provide details or even discuss generally how the President intends to engage Iran diplomatically and

whether he would support further sanctions on the regime. I hope we will get the opportunity to have that discussion sometime in the near future.

Thank you, Mr. Chairman.

Senator BAYH. Thank you, Senator Shelby.

I will recognize members in the order in which we arrived, alternating sides of the aisle. Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. Thank you, Senator Bayh, and I want to thank you and Chairman Dodd and Ranking Member Shelby for having this hearing, and I welcome Joe Lieberman. Thank you for being here, Senator.

This is an interesting issue on a couple different fronts because I think that any sanctions that we apply, we cannot be the only ones on the block doing it, I guess is what I want to say. We need to make sure that it is a community effort amongst the world, and how we get other folks to step up to the table because, quite frankly, Iran's potential nuclear capabilities, if they come to pass, will have a destabilizing impact on the world. And so how we get other folks to step up and help us keep that region stable, basically—that is what we are looking for—is important.

And then as we look and see what has transpired over the past while with the recent elections and the unrest that is occurring in that country due, I think, to poverty and unemployment and a government that is simply not responsive to the people, how do we not distinguish that flame that is burning? Because, quite frankly, I think that the people have figured it out, and we do not want to stop them from controlling their own destiny.

So I look forward to the hearing, look forward to the panelists, look forward to hearing what they have to say about the region. I by no means am an expert, but I certainly look forward to the information.

Thank you.

Senator BAYH. Thank you very much, Senator.

Senator Corker.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. Thank you, Mr. Chairman.

Mr. Chairman, I, as you know, do not ordinarily make opening comments. I do want to welcome, though, Senator Lieberman. There is a hearing in Foreign Relations on Sudan. I just came from there. So I am going to be in and out. I want you to know that is no disrespect to one of the most honored witnesses we have had in recent times.

So thank you for having this hearing. It is very important, and I look forward to learning from it.

Senator BAYH. Thank you, Senator.

Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman.

I want to just briefly say that I appreciate this hearing. It is timely and important. It is my personal view that Iran is not sim-

ply an existential threat to our ally in the Middle East—Israel—but it is a threat. And when I look at the fact that Iran has made dramatic progress in its nuclear program over the last 18 months, with the June IAEA report indicating that it had increased the number of installed centrifuges by 1,200 in the preceding 3 months, and that its stockpile of low enriched uranium is now at 1,339 kilograms, an increase of 33 percent since the February report, enough low enriched uranium to produce a minimum amount needed to arm a bomb if the material were further enriched to weapons grade; and in addition to its growing enrichment process, Iran continues to test fire ballistic missiles at a rapid pace, missiles that now are capable of delivering a payload to Israel or our allies in Europe, I am seriously, seriously concerned.

So I look forward—I believe and respect what the administration is doing in terms of seeking to have a diplomatic track, but I think the Congress strengthens the hand of the President in having an alternative track, a parallel track at the same time, and that is why I support your legislation, am a cosponsor of it, and looking to hearing the witnesses today to determine how do we best ensure that what we universally do not want to see happens does not take place.

Thank you, Mr. Chairman.

Senator BAYH. Thank you very much, Senator Menendez.

Senator Martinez.

STATEMENT OF SENATOR MEL MARTINEZ

Senator MARTINEZ. Mr. Chairman, thank you very much. A very important hearing, of course. We all agree.

Senator Lieberman, a pleasure to have you, and to the other distinguished panelists as well, thank you for being with us today.

No doubt that Iran is on a path to achieving nuclear power, a weapon. There is no doubt that that would be an incredibly destabilizing event to the region, but it is also equally a threat to the very existence of the people of Israel. We cannot allow for this to occur. I appreciate the diplomatic track, but I believe that all options must be available and on the table. And I think the longer we wait, the more danger arises. I think the time to act becomes closer and closer at hand.

I do not think there is any question that Russia does not care about this outcome that we so much care about, and so I think, so long as they are part of the P5-plus-1 process, that nothing significant is going to come out of that.

Obviously, it is great to look at the diplomacy being a part of this, but I have no hope that Iran voluntarily will stop the path they are on. Even with the unrest that they have had, there is really no indication that a changed government would have a different idea on the pursuit of nuclear weapons and perhaps even on the issue of the destruction of Israel that President Ahmadinejad seems so intent upon.

So I am concerned and I think the fuse on our timeframe grows shorter by the minute, and I would love to hear the administration make a clear statement that all options continue to be on the table and also that time is of the essence, and that simply hoping for a negotiation to begin that is, in my view, elusive at best, particu-

larly with a government that today you do not even know who you are to negotiate with because I am not sure the power structures are intact in Iran at the moment. I think that the time for more aggressive action draws really, really close.

So thank you for being here. I look forward to hearing from all of you.

Senator BAYH. Thank you, Senator Martinez.
Senator Merkley.

STATEMENT OF SENATOR JEFF MERKLEY

Senator MERKLEY. Thank you very much, Mr. Chair, and I associate myself with the comments of my colleagues. I am hoping that in the testimony today we can really get into the details of understanding the potential features of a sanctions strategy and why is it the 1996 Iran Sanctions Act did not work so well. How do we bring in and strengthen and move from unilateral to multilateral sanctions that might be more effective? What are the levers with Russia and Europe and Asia?

And so that we have basically recognized over time that sanctions are—there is no magic bullet here, but what can we do that would make this tool the most effective one possible to try to prevent this unacceptable threat of a nuclear weapon in Iranian hands?

Senator BAYH. Thank you, Senator Merkley.
Senator Johanns.

STATEMENT OF SENATOR MIKE JOHANNS

Senator JOHANNS. Thank you very much, Mr. Chairman.

Let me start out today and say it is good to be here, and, Senator Lieberman, I have so much respect for your thinking in this area, and I wanted you to know that. I really appreciate your strong leadership.

I look back over the events of the last few months with the election in Iran, and I must admit that I am deeply worried by not only the rhetoric that has come out of that country on behalf of and by Ahmadinejad over the past years. But I am deeply worried by this situation where I think because of the election, because of the just aggressive violence, oppression of any voice pushing back on the results of that election, that unfair election, that Ahmadinejad has been emboldened by what has happened.

For a long time, I would express the view that I really felt that the religious leadership in Iran had complete control over Ahmadinejad and where he was at and what he said. And I have to tell you, after the election, I certainly appreciate the power of the religious leadership there, but I also think that they have seen the train leaving the station, if you will, and they got on the train. And I worry about whether his power has now been solidified and strengthened in a way where as long as he pays deference to the leadership there, the religious leadership, he can do about what he chooses to do.

If that is the case—and I would like to hear your thoughts on that—then I think the dynamic is changing. And the threats that sometimes seem crazy, the references to Israel that sometimes

seem too bizarre to be real, maybe all of a sudden they are not bizarre anymore, and they are more real than bizarre.

Those things, I think, are things we have to be paying attention to. If, in fact, that is a new nuance that has occurred in this very difficult part of the world, then we really have to refocus on what our strategy is going to be, how we are going to deal with this, what sanctions can have an impact, because it seems to me so far we are not having an impact in terms of sanctions.

So my hope is that in today's hearing we can focus on has there been a new nuance added to this situation. Is Ahmadinejad in a more powerful position than maybe he has ever been? And what would the consequence of that be as we start to think about how we work with this situation?

The final thing I will say—and I did not expect to speak this long, but I feel so strongly about this relationship we have with Israel and its importance to us. This is a part of the world where it is hard to find friends, and this is a deep, deep friend. This is a part of the world where it is hard to find democracy, and this is a country that was established on the basis of democracy and freedom. And I just think in every way we can we have to stand by this friend and support them, and the stronger we can speak as a Nation in that regard, I think the better off we are in terms of our long-term strategy for this part of the world.

With that, I will just wrap up and say again, Senator, I am so anxious to hear your thoughts, and I appreciate your leadership in this area.

Senator LIEBERMAN. Thank you.

Senator BAYH. Thank you, Senator.

Senator Bennet.

STATEMENT OF SENATOR MICHAEL F. BENNET

Senator BENNET. Thank you, Mr. Chairman. I will be very brief. I want to first thank you for your leadership in the Congress on this incredibly important issue, for calling all of our attention to it, and for Senator Lieberman's leadership as well, thanks for being here today.

This is an enormously important topic for us. The threat is real, both to the United States and to Israel, and the profound instability that could result in the region if Iran were able to acquire nuclear weapons should be of concern to every American and every citizen on this planet.

I just appreciate your willingness to hold the hearing and am deeply grateful, Senator Lieberman, that you are willing to come talk to the Committee.

Thank you.

Senator BAYH. Thank you, Senator. I appreciate your kind words. As I mentioned in my opening statement, Senator Dodd was also instrumental in bringing us here today, so I want to let you know that your gratitude should be shared with him as well and his staff. So thank you for that, Senator.

I would like to thank our distinguished witness for his patience in listening to all of us, and now the time has come for us to benefit from his insights. If there was ever a witness who truly needed no introduction to this panel, it is our first witness, Senator

Lieberman, our distinguished colleague from the State of Connecticut. Senator Lieberman.

STATEMENT OF JOSEPH I. LIEBERMAN, A UNITED STATES SENATOR FROM THE STATE OF CONNECTICUT

Senator LIEBERMAN. Thanks very much, Senator Bayh, Senator Shelby, and members of the Committee. Thank you for giving me the honor of speaking before you this morning. Thank you for your kind words during the comments you spoke. I am really honored to be here.

I join you in giving credit to my friend and colleague from Connecticut, Senator Dodd, for the leadership role he and this Committee have played, and to Senator Shelby as a strong, principled partner to Senator Dodd on these matters. Last year, this Committee reported out critically important sanctions legislation and endorsed it overwhelmingly.

I thank you, Senator Bayh, for your strong and persistent leadership on this matter, and I will tell you what an honor it was for me to work with you on the amendment that passed in the Department of Defense authorization bill last week, and on S. 908, the Iran Refined Petroleum Sanctions Act, all very important, as you said, quite remarkable.

You all have spoken so eloquently and well that I am going to ask that my statement be included in the record because it is repetitive, and I will see if I can just put in context, I think, what we are all feeling and what this moment of challenge is about.

The Senate is picking up its pace of action here. The amendment that was adopted last week unanimously by the Senate for the first time puts an explicit time schedule on sanctions against Iran, and it adopts the schedule that President Obama and President Sarkozy have stated, which is that if there is not a reaction by Iran by the G-20 meeting that will be held in Pittsburgh in the third week of September, action will have to be taken.

And in our resolution last week, we said that that action should begin with sanctions against the Central Bank of Iran. Senator Shelby, you used the term that Iran has become "a central bank for terrorism worldwide." The Central Bank of Iran is the central bank of support for terrorism and sustaining the economy of Iran and, may I say, end-running some of the other sanctions that a very creative, aggressive Treasury Department under the Bush Administration, continuing now under President Obama, have imposed on Iran.

So

Do this, Mr. President

is what we said last week

at the G-20 or right after it, if there has been no response from Iran or if within 60 days of that summit they do not stop their production of enrichment on fissionable material.

S. 908, as you said, has 71 Senate sponsors, broadly bipartisan. I would say, if you look at the list, it includes some of the most liberal and some of the most conservative members of the Senate. And there is power in this because it sends a very clear message to Iran and the rest of the world that no matter what may divide

us on other issues, we are very united in our concern and our anger about the Iranian program of nuclear weapons development and our commitment to urge and push and pressure and legislate our Government to be very strong in doing everything we can to stop that development.

Now, why does it worry us? Iran is a great country with great people. The whole history of Persia is of an extraordinarily bright, well-educated, highly developed culture. In 1979, the government was taken over—a complicated situation, I understand, but the reality—taken over by a fanatical Islamist regime. And it has grown more fanatical over the years, both with regard to its neighbors and the rest of the world, and with regard to its people. And too often in our discussion of Iran here, we, quite understandably, talk about the threat it represents to Israel, the threat it represents to the United States, the threat it represents to stability in the Middle East. But it has represented a daily threat, and not just a threat, but the reality of suppression and the denial of freedom and the brutal treatment of dissenters, to its people ever since this revolution took place.

This is a fanatical regime that is also an expansionist regime, and it has chosen to work through proxies, terrorist proxies—Hezbollah, Hamas, the Shia extremists in Iraq—who have on their hands the blood of hundreds of American soldiers who would not have been killed there were it not for the support that the Iranian Revolutionary Guard Corps was giving to those extremists in Iraq.

Now we have a situation where, as a result of the public uproar over the blatantly unfair elections, two things have happened. One, the world now sees what we cannot see every day because it is a closed society: the terrible repression that the Iranian people live under. And I always remember—I think it was Sakharov who said during the dark days of Soviet communist oppression that how can the world rely on the word of a nation that lies consistently to its own people and suppresses their freedom?

But here is what I worry about, and, Senator Johanns, I think you have asked a very interesting question. I worry—and history gives us, I think, a basis for this worry—that nations, particularly dictatorial nations, when they are in domestic difficulty—and this regime is in trouble right now in Tehran—very often look to generate an international crisis, and through that crisis try to unite the people behind them again. So I think we are in perilous times.

As you have all said, every day that goes by, more of those centrifuges are spinning, more fissionable material is being created. They have enough for one bomb now. They are soon going to have more than that.

What happens when they achieve that capability? Well, of course, for Israel, listening to the words of Ahmadinejad and all the others, including some who today are described as moderates who say “Death to Israel”—it represents an existential threat.

But we also have to remember the cheers of “Death to America,” too. And, you know, we do not have to go back too far—only, unfortunately, to Osama bin Laden—to know that at our peril do we not listen to threats against us that seem so fantastic that they are unbelievable. But it is a real threat.

Also, if you have been to the Middle East, as many of you have been, what has been striking to me is that the anxiety level about Iran and the Iranian nuclear weapons program is as high and intense at the leadership of the Arab countries as it is in Israel. The threats are not made to the Arab countries, but they feel the danger. And what they feel is if Iran gets a nuclear weapon, the balance of power switches in the Middle East.

For us, this is very significant because over decades we have been committed to that stability, worked hard, spent a lot of money, lost a lot of lives to preserve that stability. That will be greatly disrupted if the Iranians get a nuclear weapon. There will be a powerful motivation in some of the larger Arab countries to develop their own nuclear capability. It will be, I think, the end of the international nonproliferation regime. And it will strengthen the terrorist proxies of Iran, because behind terrorist action then will be nuclear blackmail.

I think this is about the most unsettling thing—in a world that seems very unsettled—that could happen. The greatest threat to peace is for Iran to get a nuclear weapons capability.

So, for all those reasons and because time is not on our side, we have very few options to peacefully draw this to a close in a positive way.

It is why I support President Obama's initiative to engage with Iran. We have got to test that, but we have got to test it, as you have said, on a time-limited basis. They can't drag this out as the Iranians did with the Europeans.

I think what is becoming increasingly clear because of this initiative and the deadly silence of the Iranians in response to it—not only publicly, but from everything I can determine, privately—that the world has to recognize that the problem between Iran and the United States is not in Washington. It is in Tehran.

And I think it will become increasingly clear that only through what Secretary Clinton described earlier this year as crippling sanctions do we have a chance to convince the Iranians to stop this nuclear weapons program and to save ourselves from exactly the choice that Senator Bayh described, the most difficult choice between doing nothing in regard to a nuclear Iran and taking military action, because that is the choice we will be faced with. To me, in that moment, I think there is only one choice, but we don't have to make it now and it is why these sanctions proposals are so important.

I think we are at this point. I think, as someone else said to me, the only thing that the fanatical regime in Tehran cares more about today than the development of nuclear weapons is the survival of their regime. And I think with the instability in Tehran today politically, crippling economic sanctions may reasonably lead the regime to wonder whether it can survive and to lead it to do what it ought to do to become part of the family of nations.

So I think that S. 908 is the next significant step. They depend on refined petroleum products. This bill will basically say to companies worldwide who are selling gasoline to Iran, who are shipping it to Iran, or who are ensuring or financing those shipments, you have got a choice to make. You can continue what you are doing

with Iran or you can do business in the United States of America. You cannot do both.

I think time is of the essence. I appreciate greatly that you are holding the hearing this morning. I hope that the Committee will consider marking up this bill and reporting it out in September. Remember, it is not mandatory. It gives the President the authority to impose these sanctions, and I think only if the Iranians see that these sanctions are coming do we have any hope of avoiding the stark choice that you, Mr. Chairman, have laid out.

When you depart from your prepared text, you speak longer than you otherwise would. But your opening statements really inspired me to do that. I thank the Members of the Committee and I have great confidence in your judgment on this matter and so many others that come before you, as well.

Senator BAYH. Thank you, Senator Lieberman.

First, without objection, I will order the entry of your full statement into the record. So ordered.

Thank you for your very insightful and sobering comments today. You have been a longtime leader in this area, and I know I speak for the entire Committee when I say how grateful we are for your leadership and your testimony today.

Senator LIEBERMAN. Thank you very much, Senator Bayh. Good morning.

Senator BAYH. Good morning.

I would like to ask the next panel of witnesses to please join us.

While they are taking their seats, I would like to ask my colleagues, we are fortunate to have four very distinguished individuals with us today. That means the list of their accomplishments is rather lengthy. I ask my friend and colleague Senator Shelby, if it is all right with him and the rest of the Committee, I would like to have ordered the entire list of their credentials into the record, but in the interest of saving time, I will just cite their current place of employment.

Senator SHELBY. That is fine.

Senator BAYH. With no objection, we will proceed that way and I will order their entire resumes entered into the record.

Senator BAYH. I would like to thank our witnesses for joining us today. I am well aware that they have busy schedules and so I speak for the entire Committee when I say how grateful we are for your time and for the benefits of your thinking on this important area.

As I mentioned, I am simply going to list your current place of employment and enter into the record your entire list of credentials. Because you are all so accomplished, it would take us quite some time to go through the entire list of academic accomplishments, employment history, and that sort of thing.

We are first joined by Ambassador Nicholas Burns, who is with us today. He is a Professor of the Practice of Diplomacy and International Politics at the John F. Kennedy School for Government at Harvard University.

Next, we have Dr. Matthew Levitt, Director of the Stein Center on Counterterrorism and Intelligence at the Washington Institute for Near East Policy. Thank you, Dr. Levitt.

Next, we have Dr. Suzanne Maloney. I guess I am skipping over one in the order of the table here, but that is the way it has been given to me. I will come back to you, trust me, Danielle. She is Senior Fellow at the Saban Center for Middle East Policy at the Brookings Institution.

And we also have Ms. Danielle Pletka, Vice President of Foreign and Defense Policy Studies at the American Enterprise Institute for Public Policy Research.

I would like to thank you all for joining us today, and Ambassador, we will begin with you and then go in order down the table. Ambassador Burns?

STATEMENT OF NICHOLAS BURNS, PROFESSOR OF THE PRACTICE OF DIPLOMACY AND INTERNATIONAL POLITICS, HARVARD UNIVERSITY

Mr. BURNS. Senator Bayh, thank you very much. Senator Shelby and Members of the Committee, it is a pleasure to be here. I have testified before this Committee as a government official during the Bush Administration in the past. This is my first time testifying as a private citizen, so obviously the views I am about to express to you are entirely my own. But it is a pleasure to be here.

I will not read my statement. I will take mercy on the Committee. I submit it for the record, obviously. But I would just like to say that—

Senator BAYH. We will have to call you more often to testify, Ambassador Burns.

[Laughter.]

Mr. BURNS. I will just make a couple of points that are at the heart of my statement.

First, let me just say that I agree very much with the sentiment that I think every Member of the Committee made in the opening remarks as did Senator Lieberman. I can think of no foreign policy challenge to our country that is more serious and perhaps more pressing than the challenge of a nuclear-armed Iran.

There are three challenges to our national security posed by Iran. First is a nuclear weapons future that would destabilize the balance of power. It would confront Israel with a terrible strategic situation and confront our Arab friends with the same situation.

Second, as Senator Shelby has pointed out many times, Iran is the major funder of most of the Middle East terrorist groups that are a problem for us, a problem for the Israelis, a problem for the Iraqis, and in other parts of South Asia.

And third, Iran is highly significant and highly influential in Afghanistan and in Iraq, so we have a real challenge here. We Americans should seek to maintain our position as the dominant power in the Middle East because our influence is positive in that region and Iran's is not. But that is a strategic challenge that is posed for the United States by the rise of power of the Ahmadinejad government over the past 4 years.

I would defer to other panelists, especially Suzanne Maloney, who is a great expert on the internal politics of Iran. But, as many of you have said, I think the events of the last several months—from the lead-up to the elections, to the June 12 elections, to the extraordinary aftermath and the opposition that we saw in the

streets of Iran of all classes, all ages, all ethnic groups—pose a real challenge now to the Iranian government. I believe the Iranian government has been weakened by this whole episode and we should seek to diminish its strength further.

I think we do have the upper hand as a country, we and the coalition of countries with which we are working, and we should seek to diminish Iran's strength in the wake of this political crisis.

Now, I know that many people think we should at this time not deal with the Iranian government at all because, of course, people say, well, if you deal with a government, you might legitimize it and it might be an affront to the demonstrators. I have some sympathy with that because I think most Americans looking at these events immediately sympathized with the people in the streets who wanted liberty and wanted a better government and wanted a better future. That is obvious.

I think the problem with isolating them now and not talking to the government at all is that it probably weakens our ability to be effective in opposing them and in providing for a more difficult and energetic sanctions regime to pressure them.

So my view is that—and I am a former official of the Bush Administration—is that I think that President Bush's strategy of two paths, because that is how he and Secretary of State Condoleezza Rice articulated it, is the correct one, and I think that President Obama is essentially following that same basic strategy, and so I support what President Obama is trying to do.

Here are the two paths. We, the international community, would say to the Iranians, we are willing to negotiate in a very short window, as many Members of the Committee have said. Given the fact that they have stonewalled negotiations, the Iranians, they have prevented them for 3 years now. We are willing to negotiate and sit down with you. The object of those negotiations, I believe, should be—I think it is the Obama Administration's idea, as well—to seek an end to the nuclear weapons project of Iran. If it is not possible to negotiate successfully that objective in a very short period of time, then I think we will have much greater credibility to say to the Russians and the Chinese, the Europeans and others, you now need to join us in draconian sanctions against the Iranian regime.

I think that if we refuse to negotiate at all, we diminish our ability to be successful in arguing for subsequent sanctions.

I would just make one further point on this. I think it is likely, if the parties even get to the negotiating table, that the negotiations will likely not succeed, because I think the Iranian government under Ahmadinejad is so determined to create a nuclear weapons future for its country, it is not likely to agree to the object of these negotiations that I just cited, an end to that program.

Therefore, that sets up this important question of sanctions, which is at the heart of the bill that you have put forward, Senator, and that so many Senators have cosponsored. What type of sanctions and what type of flexibility should the President and the executive branch have? I would just say that you are right to consider sanctions of every kind, strong financial sanctions, economic sanctions, and energy sanctions, because those have not been tried in the past, the energy sanctions, and that is Iran's Achilles heel.

I would just say two things. I think it is important that the President maintain his flexibility to conduct foreign policy because this is a shifting situation. It is a situation that is highly complex and I wouldn't favor any legislation, or I wouldn't suggest any legislation that would tie his hands, that would mandate deadlines for him. But if he is given sufficient waiver authority, then I think these types of sanctions are likely to have the greatest potential impact on the Iranian government and they may be the only thing that will convince Iran to think twice about going forward with a nuclear weapons project in the face of concerted international opposition.

The second point I would make on sanctions, Senator, would be I think it would behoove the United States, both the administration and the Congress, to try to convince other countries of the world to make these sanctions multilateral and not unilateral. Because despite the best intentions of the Congress or our government or any one of us on this panel, if Americans are the only ones sanctioning, those sanctions will not succeed. We need to convince the Russians and the Chinese, the Europeans, the South Koreans, the Japanese, the Arab countries that are trading partners of Iran to join us in these sanctions. So if there are going to be financial sanctions, then they have to be universally applied, and the same is true of energy sanctions.

The last point I would say is this, and I will finish on this point, and forgive the length of these extemporaneous remarks. I think that we would be well served if we didn't allow our national debate to come down to, well, either it is negotiations with Iran or it is war. I think that we can have a more complex strategy of negotiations combined with sanctions, of negotiations combined, as I think Senator Shelby said, with the threat of the use of force. We must keep all options on the table, in my judgment. I think we have to say that all options are on the table. The Iranians will understand that. They may be more impressed with that than anything else.

And I think it is very important that diplomacy and the threat of force be combined here so that we bring the national power of the United States to greatest effect to try to convince the Iranians, as well as to try to impress our negotiating partners on our side of the table that we are not going to live with a nuclear armed Iran.

And I would just end by saying that I don't think it is inevitable that we are going to have a war with Iran. I still maintain some hope that a combination of skillful diplomacy with the threat of force, with the threat of very tough sanctions, might succeed in convincing the Iranians to back down. Should that not happen, then, of course, the President and the Congress will be faced with a truly excruciating decision, the use of force or the construction of a containment regime in order to limit Iranian power against Israel, against the Arab world, and against the United States. That is down the road. I don't think you face that now, but that ultimately is what the stakes are, I think, in this very difficult problem.

Thank you.

Senator BAYH. Thank you, Ambassador, very much. I look forward to having an opportunity to explore your thoughts in further depth during the round of questioning.

Dr. Levitt?

STATEMENT OF DR. MATTHEW LEVITT, SENIOR FELLOW AND DIRECTOR OF THE STEIN PROGRAM ON COUNTERTERRORISM AND INTELLIGENCE, WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. LEVITT. Thank you, Senator Bayh, Senator Shelby, Members of the Committee. It is an honor to be here. It is an honor to be on a panel with such distinguished experts.

Allow me to maybe start off where Ambassador Burns finished in explaining a little bit about the sanctions strategy, as someone who was at Treasury when we first started implementing it, because a lot of people ask me, well, if this hasn't ended Iran's pursuit of nuclear weapons, if it hasn't changed their calculus, if it hasn't prevented them from doing what they wanted to do, then really how effective are these tools anyway?

The answer is that targeted financial sanctions were never intended to solve your problem. This is not a silver bullet. It is not a panacea. On their own, financial tools can only do so much and they were always planned that way. But coupled with other tools, as Ambassador Burns said, especially robust diplomacy and a credible military presence in the region, financial measures, I believe, can effectively create leverage for diplomacy in particular. That diplomacy should focus on Iran, but also on Russia, on China, and on our European and Asian allies and the Gulf States, among others.

There are three critical things that sanctions can accomplish. The first is to disrupt Iran's illicit activities, make it more difficult for them to do what they want to do, constrict their operating environment, and even if it doesn't completely stop the program, they are still effective.

The second is to deter third parties from knowingly or unintentionally facilitating Iran's illicit activities.

And the third and the most difficult is impacting Iran's decision-making process so that the continued pursuit of these illicit activities themselves are reconsidered.

Some question the wisdom of employing sanctions when the administration is seeking to pursue engagement. Others question the wisdom of employing sanctions that might give the regime, in the wake of the June 12 elections and protests that followed, a straw man and a scapegoat to blame for all their ills, though now Great Britain has taken the number one slot and we are down to number two.

My own conclusion is just the opposite. This is exactly the time to use financial tools to build leverage for diplomacy. With a hard-line regime so significantly delegitimized at home to the point that both moderates and hard-liners alike have overtly questioned the decisions of the Supreme Leader, the regime's ability to easily deflect criticism over the state of Iran's economy, as a result of sanctions imposed over the nuclear program, I think, is significantly undermined. The regime faces far greater legitimacy crisis over its

handling of the sham elections, the IRGC-related Basij militia crackdown on Iranian citizens protesting the election, the demonization of those protestors by senior leaders, and the incarceration of protesters.

Given that Iran's nuclear program continues to progress, one thing is clear, as you have all said and we have heard here already: we do not have the luxury of time. Therefore, the only question is not whether or not to use sanctions, but what sanctions, targeting which entities, under which tools and authorities, and in what order. And so here are a few ideas.

First, I think we should seek international consensus and multilateral sanctions, including, as Ambassador Burns said, multilateralizing our efforts focused on the energy sector. I think that the deadline of the G-20 here is critical, and among the targets that we should be focusing on first, at the U.N., are those that the U.N. has already made a shot over the bow.

For example, UNSCR 1803 explicitly called on member states to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran and their branches and subsidiaries abroad. There are several banks that we in the United States have sanctioned that have not been sanctioned by the United Nations yet. We should take those actions. We should target Bank Mellat. We should target Bank Melli. We should certainly consider targeting Bank Merkazi, the Central Bank of Iran, as you have heard.

I also think we need to focus on the IRGC elements that are involved in the missile and nuclear weapons programs, and also in terms of the more recent Basij crackdown on peaceful protestors. Khatam al-Anbia, the IRGC-affiliated engineering conglomerate, is very involved in the oil sector. We have already designated it unilaterally. It would make a very good target for multilateral designation. In fact, it has already been listed by the European Union. And IRISL, the Iranian shipping line, which has also been called out by the U.N. Security Council as a company that has engaged in proliferation shipments and which we have already designated, a designation that would have, I think, significant impact.

Multilateral action, however, is very difficult. Russia is not on board yet. China is not on board yet. And so if we are to do something around the time of the G-20, we may have to take some other unilateral actions, bilateral actions with other countries, with other regional bodies, as well, and we should not shy away from doing that.

Nor should we shy away from actively supporting the efforts of multilateral technocratic bodies like the FATF. The FATF's multiple warnings on Iran have had a very significant impact on Iran's ability to do business. FATF's letters calling for enhanced due diligence, highlighting the shortcomings of their anti-money laundering system, and most recently, instructing countries to begin developing countermeasures, as they described them, to deal with Iran's illicit financial activities have been very effective.

I do think, however, that it might be time to engage in less targeted financial measures. The targeted financial measures campaign focusing on Iran's illicit conduct has been very successful in getting people on board. But I agree, as we have all said today,

that the true Achilles heel of the regime is the energy sector. And even though the regime has great expertise in the formation of front companies and sanctions busting, if we were to have a robust program in place, especially if we weren't the only ones doing it, they would not be able to make up for that 40 percent of re-imported refined petroleum. It would have a tremendous impact, I believe.

There are other things that need to be done, especially focusing on Iran's continued ability to transfer arms and technology, and I will just cite one thing in that regard. For example, I think we should encourage implementation of the World Customs Organization's Draft Framework on Standards to Secure and Facilitate Global Trade. This is something DHS has thought a lot about and I think it is something that would make a big difference. We all saw earlier this year when the Monchegorsk, the Cypress-bound Iranian chartered ship which was carrying weapons, we believe for Syria, perhaps further on, that clearly, we have holes in our current program.

So to conclude, it seems clear to me that today, Iran is politically and economically exposed. Even as it continues to pursue a nuclear program and other illicit activities, these sanctions are no panacea. The fact is, if properly leveraged, in tandem with other elements of national power—this tool will not solve anything by itself—the pinch of targeted financial measures could ultimately have a much bigger punch.

Thank you very much.

Senator BAYH. Thank you, Dr. Levitt.

Ms. Pletka? Or we can skip over to Dr. Maloney. Dr. Maloney, by the way, did I have the benefit of hearing you at an Aspen Institute conference once on the Middle East?

Ms. MALONEY. You did.

Senator BAYH. Yes. You were very impressive then, and I am sure you will be, as well, today.

STATEMENT OF SUZANNE MALONEY, SENIOR FELLOW, THE SABAN CENTER FOR MIDDLE EAST POLICY, BROOKINGS INSTITUTION

Ms. MALONEY. Well, thank you. Thank you very much, Senator Bayh, Senator Shelby, Members of the Committee. I am very grateful for this opportunity to be here and very honored to be part of this panel.

The Islamic Republic today is contending with an almost unprecedented array of internal challenges. The persistence of street skirmishes and passive resistance to the regime, the increasingly uneasy straddling of a broad array of conservative politicians, the mutiny against the Supreme Leader's unfettered authority by a quartet of veteran revolutionary leaders, as well as senior clerics, all this clearly marks the opening salvo of a new phase of existential competition for power within Iran.

At this stage, it is impossible to predict precisely where, when, and how Iran's current power struggle will end. In the near term, the Islamic Republic will likely survive this crisis, thanks to the same tactics that have preserved it for the past 30 years, behind-the-scenes deals and mass repression. But we don't know where

Iran is going from here and I think that is an important point to make at the outset of our discussion of U.S. policy tools.

I was asked to say a few words about the Iranian economy. Let me tell you that Iran is an economy that has recorded respectable growth rates in recent years. It is a wealthy country, but it has serious economic problems: Double-digit inflation, power shortages, a tumbling stock market, stubbornly high unemployment rates, particularly among its large young population, increasing dependence on volatile resource revenues, and perhaps most ominously for the Iranian leadership, a rising tide of popular indignation about economic frustrations.

Ahmadinejad was elected on the basis of economic grievances, but he governed in an ideological fashion and, for his part, bears a lot of responsibility for the continuing economic problems of the country. What has really galled Iranians is the opportunity that has been squandered over the past 4 years. Iran's oil revenues during Ahmadinejad's first term exceeded 8 years of revenues under either of its previous presidents. Forty percent of all of Iran's oil revenues in the past 30 years have come in under Ahmadinejad's watch, and really, very few people know where that money has been spent.

The unrest of the past 6 weeks is likely to exacerbate Iran's economic problems and put solutions to its long-term structural distortions that much further out of reach. And should the political situations degenerate, opposition economic actions may well further paralyze the Iranian economy.

And let me speak for a moment about U.S. policy options. The events since the June 12 elections have changed Iran in profound fashion and it would be counterproductive to suggest that this were not the case. The United States must adjust our assumptions about Iran and our approach to dealing with our concerns about Iranian policy.

But the turmoil within Iran haven't altered our core interest *vis-a-vis* Iran, nor has the turmoil effectively strengthened the case for alternatives to the stated policy of the Obama Administration to engage with the Iranian regime. Engagement will require talking to some particularly unpleasant people, but the administration's interest in diplomacy was never predicated on the palatability of the Iranian regime but on the urgency of our concerns.

Like Ambassador Burns, I am sympathetic to the concern that bilateral negotiations would somehow legitimize the regime. But diplomacy does not confer a seal of American approval on its interlocutors. To the contrary, the Iranian regime, in fact, derives whatever remaining legitimacy it has from its revolutionary ideology that is steeped in anti-Americanism. If we can successfully draw them to the bargaining table on our urgent concerns, negotiations would only undercut their attempts to stoke revolutionary passions at home and rejection of sentiments across the region. And negotiations, even if they don't succeed, would help exacerbate divisions within the regime.

Negotiations are unlikely to succeed in the short term. There is a precedent I would cite, and that is the successful negotiations over the hostage crisis in the late 1979 to 1981 period. They were difficult. We were not dealing with moderates. Our Iranian inter-

locutors were people whose authority, credibility, and interest in resolving the crisis was very much in doubt.

What made those negotiations eventually successful and produced what has been a durable agreement in the Algiers Accords were a variety of tools, including secret talks and the involvement of a third-party mediator, but also the presence of a fact that clarified the minds of our Iranian interlocutors, the Iraqi invasion of Iran.

In a similar respect, any U.S. effort to negotiate with Iran right now would benefit from the identification of incentives and counter-incentives that will focus the minds of the Iranian leadership. In this respect, there is a direct and mutually reinforcing relationship between engagement and the identification of sanctions if Iran chooses to proceed with non-cooperation. The threat of sanctions may be the only effective means of persuading Iran's increasingly hard-line leadership that their interests lie in constraining their own nuclear ambition.

In addition, the offer of dialog with Iran represents the most important factor for creating a framework for long-term economic pressures. We know from the experience of the Bush Administration that Russia, China, and in particular also the Gulf States have proven averse to the steps that would really constrain their economic relations or their strategic relationships with Tehran. The minimum price for achieving their support for and participation in significantly intensified economic pressure will entail a serious American endeavor at direct diplomacy with the Islamic Republic.

As a result, we should be coordinating our next step as closely as possible with all of these states. In particular, we should be stepping up our dialog with Beijing, whose interests with respect to Iran diverged substantially with those of the Russians and whose investments in Iran reflect a long-run effort to secure prospective opportunities rather than a short-term calculus, and I think we can leverage that long-term interest.

I understand now the buzzword in Washington is "crippling sanctions," but the simple reality is that we alone in the United States don't have the capacity to cripple the Iranian economy with our sanctions, which means that multilateral steps represent the only real alternative to a negotiated solution. While Iran is certainly capable of change, we have to recognize that economic pressures alone in the past have not generated substantial modifications to Iranian policy. Where they have worked, it has been where they have particularly played into the perceptions and utility of swaying critical constituencies within Iran.

Let me just finish by suggesting that the choice posed in one of the previous panel member's discussions between doing nothing and military action, I think is really a fallacy. We are the United States. We are a superpower. We deterred the Soviet Union and a Chinese regime that was responsible for the murder of 30 million of its own citizens. We can deter and contain Iran. Economic pressures will be part of that.

Thank you.

Senator BAYH. Thank you, Dr. Maloney.

Ms. Pletka.

STATEMENT OF DANIELLE PLETKA, VICE PRESIDENT, FOREIGN AND DEFENSE POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Ms. PLETKA. Thank you very much, Senator Bayh, Senator Shelby, for all of your leadership on this issue and for inviting me to testify here today. It is a pleasure to be on such a distinguished panel.

For the first 7 months of this year, the Congress has been extraordinarily—unusually, I would say—deferential to the President and careful to do nothing that might undercut the prospects for success in direct diplomacy with Iran.

While the U.S. Congress and the United Nations have stood down, however, change has been in the air in Iran. I think my colleagues have talked a lot about the circumstances on the ground.

What we have seen on the nuclear front is that Iran has continued its enrichment activities and claims to have now 7,000 centrifuges spinning at Natanz, an operational uranium conversion plant at Isfahan, and continuing operations at the heavy water facility at Arak.

As Dr. Maloney detailed, on the economic front there is very little good news, despite some years of extraordinarily high oil prices, very, very high unemployment, inflation at over 22 percent, the central bank announced this week.

And on the military and paramilitary fronts, Iran has continued to refine its delivery systems. In May they tested a solid-fuel ballistic missile with a range of 2,000 to 2,500 kilometers, and they continue to deliver weaponry to Hezbollah in Lebanon.

Finally, on the political front, we are well aware of the aftermath of the elections, the fraud, the outpouring by the Iranian people, and the brutal repression and murder of protesters and opposition members.

I think even the closest of Iran watchers are unsure of what is next in Iran. But I think that many have failed to take into account the radical transformation of the country and the fact that the Iranian Revolutionary Guard Corps has quietly and very systematically taken over the reins of power inside the country.

They have really come to dominate all sectors of Iranian life, including the economy, the military, and as we saw in the last month, domestic politics.

On the economic side, most interestingly, what that means for countries and for companies that are doing business in Iran, it means that if you are doing business there, you are probably doing business with the IRGC.

It is always possible that the regime does have a surprise in store. The Iranian Foreign Ministry has promised us a package aimed at assuaging—this was a great phrase—the “economic, cultural and moral crises” of the world. I know we are all looking forward to seeing that. And some have persuaded themselves that only hardliners in Iran can successfully deliver a credible deal to the Europeans and the Americans. But I think that that optimism flies in the face of every statement that we have seen from every member of the government, including so-called reformers.

Meanwhile, however, Iran has chosen not to accept the out-reached hand of the Obama Administration and others and

rebuffed an invitation from Secretary Clinton to attend the G-8 meeting. Indeed, the regime explicitly attempted to embarrass the President by leaking a letter, a private and personal letter, that President Obama had sent to the Supreme Leader, leaking it to an American newspaper—something I do not think that they have done in the past.

I believe that the time has come to reassess the value of our current policy. I think that those who suggest that we are, in fact, proceeding on two tracks are wrong. I think we have been proceeding on one track. That need not be a repudiation of engagement, but it should be an acceptance of the reality that the free pass engagement on offer by the administration has bought little more than time for Iran to install more centrifuges.

In part because of our silence, the decline in trade between Iran and certain countries of the European Union—now Iran's second largest trading partner after China—has begun to reverse itself.

More troubling, the increases in trade with Europe have been dwarfed by the explosion in Iran-China trade. More than 100 Chinese state companies operate in Iran, with bilateral trade reaching over \$27 billion in 2008—by the way, a 35-percent increase over 2007.

Despite the growing movement for divestment from state sponsors of terrorism, there have been scores of major transactions in Iran in the last couple of years, most in the oil and gas and construction sector, with values in the hundreds of millions of dollars, including companies ranging from France's Renault and Peugeot to Germany's Krupp, Siemens, Toyota, Royal Dutch Shell, Gazprom, Hyundai, Spain's Repsol, and many others.

Perhaps more important than the moral and financial suasion of divestment, however, is the tool that has yet to be used by the international community to persuade Tehran of the wisdom of coming to the table, and those are restrictions that you yourselves have been talking about here today—restrictions on the export to Iran of refined petroleum products and equipment to enhance Iran's own refinery capacity. I think that S. 908 really does afford the President the opportunity to address that.

Iran is heavily dependent—we know that, we have talked about it—on imported refined petroleum. They are trying to address that problem at home, though. Using this pressure point quickly and decisively will do more to convince the Tehran government of the world's seriousness than any number of videograms and letters and goodwill visits.

Iranian refining capacity, imports, and shipping are concentrated in fairly few hands. News reports indicate that supplies come largely from two Swiss firms—Vitol and Trafigura. And then there are the insurers without which these shipments would halt, reportedly including Lloyd's of London, Munich Re of Germany, Steamship Mutual Underwriting Association, and others of the U.K.

Companies helping Iran gain refining independence—which could be subject to sanction under S. 908—include British Universal Oil Products, which is a subsidiary of the U.S.-based Honeywell; Axens and Technip of France; Sinopec; Hyundai of South Korea, and others.

Mr. Chairman, even proponents recognize that sanctions are a blunt tool. They are, as we have all said, not a silver bullet, and they may not—in fact, they will certainly not deliver an end to the Iranian nuclear program. But they will help force a decision inside the Tehran regime about the value of the nuclear program and the wisdom of remaining isolated from the world in order to further that program.

In truth, I think that the choice is really not between engagement and sanctions. Rather, it is only by applying the toughest possible sanctions that we stand any chance of persuading Iran's leaders to consider serious negotiations with the international community. And it is time to give the President the additional tools he needs to do just that.

Thank you very much.

Senator BAYH. Thank you, Ms. Pletka. I appreciate your very good testimony here, and I particularly appreciate your joining us, even though you apparently may be under the weather a little bit. So thank you.

Ms. PLETKA. No. It is so cold in here.

Senator BAYH. You feel cold in here? In spite of all the hot air emanating from this institution?

[Laughter.]

Senator BAYH. Well, we will now begin the round of questioning, and I thought this was an excellent panel, and we will have 5 minutes per member and then a second round if there are sufficient questions thereafter.

Let me begin, and I think—this is just for the record. I think, Dr. Maloney, you touched upon this, although at least indirectly everybody else did as well. Following the invasions of Afghanistan but particularly the invasion of Iraq, there was a brief window there where, through back channels, the Iranians were reaching out to us looking for ways to cooperate, even suggesting perhaps some accommodations could be made here. They were just tentative feelers, that sort of thing.

My takeaway from that was that they were very impressed by action and material consequences. They were worried. The regime on their east had been changed. The regime on their west had been changed. They were beginning to think—as some of you suggested, they care most about regime preservation. They were beginning to think about their own situation, and so they began to moderate their behavior a little bit.

What insight does that offer us into how we can actually change their behavior with regard to their quest for nuclear weapons? Doesn't it suggest that, you know, at least the potential threat of or the thoughtful application of sanctions with material consequences is our best hope to change their behavior? Is there any useful insight to be gained from their outreach following Afghanistan and Iraq, at least for a brief window that then closed after they began to realize that Iraq was really a place we were going to get bogged down and might help them in the long run?

Ms. MALONEY. I think what that episode shows us most clearly is that Iran, the leadership as a whole, is capable of making a rational cost/benefit assessment of its own interests, and at that time they saw the potential costs and the potential threat to their own

survival as severe enough to generate perhaps some kind of unprecedented outreach to the United States.

It is not clear, I would say, that Mr. Ahmadinejad is capable of that same sort of assessment, but, clearly, the overtures that were made in 2003 could not have come without the approval of the Supreme Leader. He was influenced, no doubt, by people around him who were perhaps more moderate than those who are surrounding him today. But that is, of course, what also makes the emergence and the potential empowerment of what we are calling an opposition but really is not an opposition in the sense of an opposition trying to oust the regime.

The reemergence of former President Rafsanjani in particular, former President Khatami, Mr. Mir Hussein Moussavi, and Mehdi Karrubi, these are all people who appreciate that the nuclear program is not worth the potential cost to Iran, and I think we have got to be watching their position very closely in hopes that some sort of—that that kind of pressure can be reapplied, that that kind of calculation can once again be part of the Iranian leadership’s decisionmaking.

Senator BAYH. Ambassador, I would appreciate your thoughts on that. It seems there is consensus among the testimony today—and I suspect on the Committee—that dialog and negotiations is appropriate, but they are most likely to be effective, indeed, will only be effective if there is some meaningful consequences for a failure to negotiate in good faith or a failure to negotiate at all. So I am interested in your assessment. Dr. Maloney mentioned that the hostage crisis was only resolved when they began to worry about their own situation. They reached out to us, at least temporarily and tentatively following the invasion of Iraq because they were worried.

What does that suggest about the importance of meaningful sanctions and to have any hope of changing Iranians’ behavior with regard to their nuclear program?

Mr. BURNS. Well, I agree with Dr. Maloney that the Iranian Government is more likely to respect strength than anything else, and I think, Senator, you are right to conclude that is one of the lessons, perhaps of how they acted in 2001 after our invasion of Afghanistan and in 2003 after our invasion of Iraq.

For the record, I will say the Iranians had a golden opportunity to negotiate with the Bush Administration in May-June of 2006 when the administration offered negotiations. The Iranians then turned those down over the next 2 years. So the onus is really on Iran to show that they are interested.

Senator BAYH. Perhaps their assessment of their own situation had changed by 2006.

Mr. BURNS. Well, that gets to my second point. I think that strength of the United States is not enough. We have to have international strength, and we have to have a diplomacy that brings Russia and China in particular—Russia sells arms to Iran; China is their leading trade partner—with us. And that is why I think that President Obama has done—I have been impressed by his diplomacy toward Iran. I think setting up this construct of being willing to engage, willing to talk, seeming to go the extra mile, with the likelihood that those negotiations either will not take or will

fail, that allows the United States to have a stronger hand in arguing for the type of sanctions that the Committee is considering and the Senate will consider. And it gives us more options, I think, for the future than fewer.

Senator BAYH. My time is about up on the first round, but I guess my point is—and I gather it is the consensus of the panel—that none of us wants to impose sanctions on Iran if we do not have to. But our assessment is that at least the credible presence of material consequences through sanctions gives the engagement the maximum chance of working and is our only hope of changing behavior if the negotiations do not work. Is that sort of the bottom line you would agree with, too?

Mr. BURNS. It is, and I would say there is an additional benefit to tough-minded sanctions. It puts off a decision to use force, and that would be a fateful decision for the United States. We should keep that option on the table, but I still think there is room and time for a combined strategy of negotiations and sanctions to try to see if it is possible to lever, influence the Iranians to change their program.

Senator BAYH. They demonstrate strength, and the stronger we are, the more likelihood that we will resolve this in an acceptable way.

Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Burns, how do you believe we should measure progress under the administration's engagement strategy? And, second, what do you believe that Iran wants to achieve from discussions with us? And is there anything that we should be prepared to give to Iran?

Mr. BURNS. Senator Shelby, I think that President Obama has done a very good job of regaining the initiative and putting Iran on the defensive. And I think taking the high road, the Cairo speech, the videotaped message to the Iranian people, he said that he would continue the Bush Administration's policy of being with the P5 in negotiations. All of that has been very, I think, effective.

The Iranians are going to be extraordinarily difficult, I believe, at the negotiating table, and they will want to divide the parties sitting at the table alongside of us. And they have effectively done that the last couple of years.

So I think the challenge for the United States now is to unite those parties against the Iranians, and that is why I think that giving the President not only waiver authority but some flexibility in sanctions is really important for him and for the effectiveness of our policy.

Senator SHELBY. Mr. Burns, you alluded to this a minute ago. A key reason, I believe, that the U.N. sanctions on Iran are so weak is that Russia and China do not share our goal of preventing Iran from developing nuclear weapons. Can our sanctions regime, as it is now, or under the various proposals we have heard here, that you are aware of work to encourage Iran to abandon their quest for nuclear weapons without bringing China and Russia to the table? I think they are very important to be at the table with us.

Mr. BURNS. I agree with you, Senator. I was the negotiator for the United States on the first three U.N. sanctions resolutions, and

they were well intentioned and they were a good start, but they were insufficient, and we knew that. We knew that we needed to get to stronger sanctions. The time is coming for those stronger sanctions.

What would make the Russians and Chinese now decide to work with us? I think, number one, they need to know this is a vital concern of the United States. It is the top of our agenda, not at the middle or the bottom of our agenda.

Number two, they need to know that the United States is willing to keep all options on the table and willing to take any action necessary to deny Iran a future nuclear weapons capability.

If both of those are in place, then I think that they might be more inclined then to work with us. You know, look at the Russians only. They live closer to Iran than any of the other countries negotiating. It cannot be in their interests to see Iran have a nuclear weapons capability. So the negotiations with Moscow and Beijing I think are the most important right now.

As I said in my testimony, if President Obama has said he is willing to negotiate, then I think the Russians and Chinese should be willing to promise the United States up front, if negotiations fail, we, Russia and China, will agree to sanctions. They did not do that in 2006 and 2007 and 2008. They need to do it now.

Senator SHELBY. Mr. Levitt, in her testimony, Ms. Pletka—I am using all of your testimony—made reference to the notion that if one is doing business in Iran today, they are probably doing business with the Islamic Revolutionary Guard. In October of 2007, the Office of Foreign Assets Control listed the leading Iranian financial institutions as well as the IRGC, among others, as “specially designated global terrorist organizations.”

Are you aware of anyone who has mapped out a complete picture of who is trading with Iran? And, Ms. Pletka, I will address this question to you. Do you believe having a full understanding of all of Iran’s trading partners would help us develop a better, more complete sanctions regime? I will start with Mr. Levitt.

Mr. LEVITT. Well, as usual, Danielle was right. If you are doing business with Iran, you are doing business with the regime’s illicit—OK. As usual, you were right again.

Ms. PLETKA. I am glad to hear that.

Mr. LEVITT. If you are doing business with Iran, there is no way to know that you are not doing business with illicit elements of the regime, in particular the IRGC. I do not know anybody who has successfully, certainly in the open source, done a full mapping, even a partial mapping, of who is trading with Iran. I do think it would be useful, but it would be limited. And I think Dr. Maloney has talked about this before, and she is right as well, of course. Iran is extremely adept at sanctions busting. They are better than anyone else at operating front companies, *et cetera*.

One of the biggest problems we have had, one of the things that we have been able to leverage most effectively with our allies to get banks designated, for example, is their use of deceptive financial practices. So simply getting a list of who is trading with Iran is like to be only the very tip of the iceberg and not necessarily address the most illicit activity.

Senator SHELBY. Ms. Pletka, do you have any comment?

Ms. PLETKA. I think that Dr. Levitt is right. It is an enormous challenge. But, of course, the truth is that even what we can find out from open press sources—and AEI has a project on our Iran tracker website that actually keeps track of all of the open press reporting on such transactions.

I have got here a six-point list of all of these companies that are doing business or reporting, and we have done a pretty solid job about trying to verify most of them. You have got hundreds and millions and billions of dollars worth of projects that are not merely selling pencils and desks, but are also in the Iranian oil sector and the construction sector. And I think that naming and shaming is worthwhile.

The truth is that the Chinese Government and the Russian Government do not really care. But I think that the German Government cares a little bit more. The Italian Government cares a little bit more. And the taxpayers in those countries that are often subsidizing these transactions through state-guaranteed insurance also care. So I think it is very worthwhile.

Senator SHELBY. Thank you.

Thank you, Mr. Chairman

Senator BAYH. Thank you, Senator Shelby.

Senator CORKER.

Senator CORKER. Thank you, Mr. Chairman.

I missed your oral testimony. I heard it was outstanding. We were in another hearing, but thank you for being here today.

Are there sanctions today that we have in place that you would herald as having modest success? Is there anything you would point to under our present sanctioning process that is having modest success? Any of you.

Mr. LEVITT. Sure. But I will caveat that it is an almost impossible question to answer—I will answer it anyway—because there are so many things that we have now targeting Iran. People say, well, you know, what percentage impact has this one had or that one, and it is really impossible to know specifically how much of an impact has anyone had.

But I would argue that there are a whole bunch of sanctions targeting Khatam al-Anbia, IRGC-related entities, most recently IRISL, the shipping lines, and certainly the banks, that have had an impact on, A, disrupting Iran's ability to easily conduct its illicit business; and, B, there is plenty of evidence, even long before the June 12th election, these actions were have a domestic political impact and people were resigning and people were getting fired and people were pointing fingers at Ahmadinejad for his poor economic policies.

I think there is no real argument that these have had no success, that they have not had some significant success. But I think there is also unanimity that they have not been fully successful in the sense of undermining the regime's nuclear program or making it possible for them to achieve that program. But, honestly, that was not the strategy's goal. We never thought that it would be able to accomplish that.

Ms. PLETKA. I think what is important to understand is not just what Dr. Levitt underscored, but the fact that so much of the sanctions activity, particularly, I think, the really ground-breaking

work that the Treasury Department did in the Bush Administration and is continuing today, has raised the cost of business to Iran significantly so that Iran finds it very difficult, for example, right now to get letters of credit, to bring in exports. They are finding it difficult to get trading partners.

Yes, it is true there are still hundreds of millions' worth of business out there, but that is hundreds of millions' worth of business that may have cost a lot less in earlier days and probably was better quality. Iran is much more isolated. But these are our only tools, and that is the problem. None of these individuals sanctions is going to cause the regime to turn around and say, "You know what? Forget it. Nuclear weapons really were not a good choice for us."

But the more targeted they are, the more that they discredit the regime in the eyes of the public, and I think that they have done that, to great effect. The more that they do that, particularly building on the opportunities after the election, the more likely we are to get the Iranians to the table to make agreements toward concessions.

Senator CORKER. I am going to move on to another question. I appreciate the two responses.

The Chairman has discussed earlier and I think introduced legislation dealing with the refined product issue. I just came from a hearing on Sudan, and, you know, our foreign policy is replete with unintended consequences. I mean, that is the way life is. It is not a criticism, but it is.

So we have this movement inside of Iran right now where, you know, obviously, many of the people who live there are very pro-Western. They actually respect our country. They respect democracy. We have a regime that certainly is the antithesis of that. And so we have talked about this whole issue of basically keeping refined product outside of the country, keeping it from coming back in.

We have had some people say that, in essence, the unintended consequence of that could be that the people inside the country that are pro-Western may, in fact, very quickly become not that. We have also had people say that, you know, they could quickly, 6 months, 8 months afterwards, figure out other ways of getting refined product in the country. Maybe that is not true, but I would like to hear from each of you—I know my time is up—what your thoughts are about whether we absolutely should create this sanction where refined product cannot make its way into Iran, and then what the consequences of that might be with a population that, generally speaking, seems to have quite a movement underway, if you will, as it relates to countering the regime right now.

Mr. BURNS. Senator, thank you. I think that one of the reasons why we ought to be focused on a diplomacy, engagement, and sanctions path rather than a war path is that if we resorted to military force, that would unite the country more than anything else. We ought to try to play on the divisions within Iran that were so apparent after the June 12th elections.

On the sanctions, I keep coming back to a basic problem, and that is that if the U.S. Congress or the executive branch asserts unilateral sanctions, they may make us feel good—and I support

stronger sanctions—but they will not be effective unless they are multilateral. And that is why I very much believe that the President needs the flexibility to work with the allies to make those sanctions, if he can do it, multilateral. Striking out on our own, I think, will not have the intended effect that we want, and we would not want a situation to develop where we create divisions between, say, Europe and the United States at a time when we ought to be united and focused on Iran itself.

So I see this as a highly complex maneuver here, and that is why the waiver authority, I think, in the legislation is so important for the President to have. I hope President Obama will have the political strength with the Russians and Chinese, in particular, to convince them that they have got to get on board these sanctions. And that is the test of our diplomacy in September and October of this year.

Mr. LEVITT. I would give one caveat maybe to Ambassador Burns' point. I completely agree that multilateral sanctions are far more effective, and for the petroleum concept to be effective, it will have to be multilateral. But I do not think that unilateral sanctions are ineffective, and, in fact, you know, when I was at Treasury we used to see all the time that international financial institutions, for example, used to incorporate our unilateral sanctions in their due diligence data bases, though they had no legal requirement to do so. And we have many, many examples on Iran, on Hamas, on other cases, where unilateral designations have had an impact, although I do not think we disagree. In essence, the multilateral route is the only one that is going to have sufficient power to get us where we want to be.

I would also point, however, to some precedent. Consider, for example, the dramatic failure of the regime's gas ration card program in the summer of 2007. The cards were loaded with 6 months' worth of ration. Iranians reportedly used the entire ration within weeks. It was a huge fiasco. As cold winters come, Iran worries about the possibility of heating fuel shortages.

Neither of these, when I look back at them, at least in the open source, demonstrates a huge Iranian, really any significant Iranian reaction against the United States. They have been reactions against the economic policies of Ahmadinejad's regime.

Ms. PLETKA. I know that time is up. I think that it is always ironic when people suggest that the sanctions that we are going to impose in an effort to get Iran to the table to talk about their nuclear weapons program could hurt the Iranian people, and yet we are willing to stand idly by while the Iranian people are crushed beneath the jack-booted heel of the IRGC on a daily basis.

There is some risk that if we end up needing to impose draconian sanctions, whether unilaterally or multilaterally, that the Iranian people will, yes, blame their government—because they almost always blame their government for everything because it is so inept—but also may blame us.

But at the end of the day, we are really not in this to talk about the tools that are available to us. We are in this because we want to stop the Iranian Government from acquiring a nuclear weapon. And that seems to be a fairly urgent requirement. We actually have not talked that much about what it would mean for Iran to

have a nuclear weapon and how Iran would come to the negotiating table or whether they would with nuclear weapons and how the regime would feel empowered *vis-a-vis* its own people, not to speak of its neighbors, if they had a nuclear weapon, and the threat that they pose, of course, to us in our homeland.

So when we talk about these things, we do need to recognize that weighed very heavily on one side is this rather terrifying prospect that Senator Lieberman outlined at the outset that all of you have talked about, and on the other side these tools that are available to us, which tend to take on the aspect of a discussion at a tea party when we talk about whether this would work and whether that would work and how we could all sit down around the nice table at Foggy Bottom or at Turtle Bay.

We need to be serious, and we need to recognize that there is some real urgency to achieving these goals.

Senator CORKER. Thank you.

Ms. MALONEY. In terms of Iranian public opinion, I can speak to my time there, although I have not been now in a few years. And I would say Iranians generally are not fans of American sanctions on their economy. However, at this stage I think it is also quite clear that they look at the disastrous policies of Ahmadinejad and at this stage certainly look more toward the government for the economic problems than they do toward U.S. sanctions. And I think that would be the case.

It is not to say the regime would not be able to leverage the blame issue, and it is already beginning to do so. I see a lot of talk about the difficulties of getting spare parts for airlines and some of their recent aircraft disasters. And I think that is taking a page from the Saddam playbook in terms of trying to mobilize international and public opinion around the unfairness issue or the public safety issue with respect to sanctions.

But let me just say that I think it is also important to recognize that a ban on refined products is not going to be a silver bullet. It may not be the Achilles heel of the Iranian economy, if only because Iranians are well aware of this vulnerability. They have been investing very heavily in new refineries and expect to be self-sufficient by 2012. One of the countries that we are speaking with about major new investments is China, and I think that is going to be something we are going to have to consider, the extraterritorial dimensions of these potential sanctions, if we are looking to build our case for multilateral sanctions, particularly including the Chinese.

Senator CORKER. Thank you for the excellent testimony, and thank you, Mr. Chairman.

Senator BAYH. Thank you, Senator, for your excellent questions.

Senator Martinez?

Senator MARTINEZ. Thank you, sir.

One thing that seems to me to be important that we have not talked a lot about is the question of regime change. This used to be a word that got thrown around this town a lot a few years ago. It isn't talked about too much these days. But what a better world it would be if there was a completely different regime in Iran. The people of Iran have been in the streets trying to advocate for change.

My question to perhaps all of you would be, what is the likelihood of a regime to be changed in Iran by the Iranian people, and is there a likelihood that a different leadership—and we have mentioned Rafsanjani and some of the other leaders who now appear to be very much on the side of regime change, as well—whether they would present any significant change in terms of the problem we are dealing with, which is nuclear arms, or whether we would see more of the same as it relates to that issue. While it might be more to the liking of the Iranian people, it wouldn't really be any different in terms of its international attitudes toward Iran—I am sorry, toward Israel or whether or not the pursuit of a nuclear weapon would continue.

Mr. BURNS. Senator, I think that, obviously, looking at the actions of the Iranian government in the wake of the June 12 elections, all of us would wish to see that regime disappear and would wish to see a democratic regime take its place. Unfortunately, that is not likely to happen in the short term over the next couple of years. And so I don't think regime change by itself can be a policy for the U.S. Government and I do think it is important that we understand that even Rafsanjani or Mohammed Khatami, two prior presidents to Ahmadinejad, well, they built the nuclear program. They sustained the support for Hezbollah and for Hamas and for Palestinian Islamic jihad, so these are not Jeffersonian Democrats who might be the people who take over if Ahmadinejad should fall from power.

I think a far more realistic policy, frankly, is the one that President Bush had in his second term and certainly that President Obama has now. We have to deal with this government in Iran. We don't like it, but we have to deal with it. We dealt with Stalin's Soviet Union. We dealt with Mao's China, and successfully through containment.

And so I think we ought to practically focus on the issue of how do we coerce that government internationally to back down from its nuclear program, and if it doesn't, how do we sanction it effectively, hopefully in a way that prevents us from getting into a third war in the Middle East. I think that is the strategic challenge and President Obama deserves some time to see this strategy of engagement plus sanctions, which I understand is his policy, play out. I think he has done very well in his first 7 months to set this up. But the crucial time will come in September and October. I think he set his own deadline, as I understand it—the G-20 summit in Pittsburgh.

Senator MARTINEZ. Unless someone has a different view, we can move to something else. Is there—

Ms. MALONEY. I don't think anyone would make the assumption that a Rafsanjani or Khatami or Moussavi presidency would have abandoned the nuclear program. Their track records are very clear.

Senator MARTINEZ. Right.

Ms. MALONEY. However, they did speak in the campaign about a different kind of attitude toward negotiations, and I think if we were to see some sort of change in the leadership, as unexpected as that is at this stage, it would create more room for a serious negotiation and potentially more room for concessions. It was under

the Khatami presidency, of course, that the Iranians did agree to suspend uranium enrichment for several years.

Senator MARTINEZ. Now, moving on to the current track and with the critical diplomacy in the months ahead, there seems to be a fairly strong consensus that in order for sanctions to really function, we are going to have to get the Chinese, the Russians, and to some extent, as well, the Europeans on board. What is it going to take to get Russian cooperation? Even the Chinese might be easier. But what is the likelihood of Russian cooperation when they are an arms seller as well as an important trade partner?

Mr. BURNS. Senator, I guess I wouldn't want to twin the Russians and Chinese here in terms of analysis. I think the Chinese, unfortunately, have shown themselves to be devoted to mercantilism, to trade above all else. When the Europeans pulled back in part from the Iranian market in 2005 and 2006, the Chinese rushed in and filled all those contracts. The Russians seem to have a more strategic view based on their history with the Iranians.

So I think that we have to let the Russians know this is a vital concern to the United States and that we have options and that we are willing to exercise those options to deny Iran a nuclear weapons capability unless Russia can join us in an engagement and sanctions regime. That is the test for the Russians. But the Russians have been cynical, as well.

Senator MARTINEZ. Ms. Pletka?

Ms. PLETKA. I agree with Ambassador Burns that I don't think we can see the Russians and the Chinese the same way. And although the Chinese are very mercantilist, I think that they have interests in North Korea and elsewhere that we can use to discuss our interest here, and frankly, there is some prospect of them being made perhaps a little bit more cooperative than I think that the Russians have been. I defer to those who have sat with the Russians on these negotiations, but certainly the evidence is that they have been very, very difficult.

And I think that the truth is that they need to be persuaded that we, in fact, have some credible other option, and the assumptions in each one of these capitals, whether it is the European capitals or it is in Beijing or in Moscow is that the United States is not going to use force under any circumstance. And if you are persuaded of that, then you are probably not going to be persuaded of the wisdom of moving toward any sanctions with any alacrity.

That was the advantage that the Bush Administration, for all that it has been vilified, had. There was some prospect that they were going to do that, although I think it was exaggerated. I think people believe, again perhaps falsely, that the Obama Administration holds out no prospect for the use of force.

Senator MARTINEZ. On that vein, if I may just extend for a second, you touched on something that I think is very important, which is what would it mean for Iran to have a nuclear weapon. Dr. Maloney also mentioned the prospects of containment and our success in the cold war on containment. I think the Iranian leadership is a little different and their motivation may be a little different than what we were dealing with in the cold war. How do we deal with a nuclear Iran and what are the prospects for contain-

ment as well as what alternative there would be beyond that, which I guess would be military action?

Ms. PLETKA. Thank you for giving me the hardest question of the day.

[Laughter.]

Ms. PLETKA. I do think that the analogy between the Soviet Union and the containment of the Soviet Union during the cold war and that of Iran is a false analogy. I think the Iranian leadership is a far more apocalyptic one. I think that the threats that they have articulated, frankly, are much stronger and much more consistent than the ones that were certainly in latter years articulated by the Soviet—pardon me, maybe I am sick—

[Laughter.]

Ms. PLETKA.—by the Soviet leadership, and we have to ask ourselves, I think, whether this is a risk worth taking.

Some have said that the Iranians—in fact, I think Secretary Clinton said this during the campaign—that the Iranians must know that if they used a nuclear weapon that they could be annihilated. And all I would say to that is, first of all, that is not terribly credible. And second of all, I think it was President Ahmadinejad who said that it would be worth losing half of Iran in order to destroy the state of Israel, and we should take people like that seriously. Senator Lieberman said that at the outset. We need to listen to people—

Senator MARTINEZ. Take them at their word.

Ms. PLETKA.—talk about the use of weapons. Exactly.

Senator MARTINEZ. Yes, sir?

Mr. LEVITT. I would just add that containing, deterring a nuclear Iran from using a nuclear weapon is only one part of the equation. As several of us have already said, there is the whole second part of it, of how it would empower and muscle up Iran in terms of its regional intentions. And here, when I travel in the region, it is not the Israelis who are the most vocal on this issue. It is the Emirates and others in the Gulf practically taking me by the lapel, saying, “Matt, you don’t understand,” after I have given them my spiel on Iran, “No, you don’t understand exactly how”—hegemonic is the word they use—their intent would become, or they would act on that existing intent, as they put it.

And the reason I think there would be a cascade of instability, other regions starting up nuclear programs, and just by virtue of having that power, it is kind of a, “So I support Hezbollah. What are you going to do about it? I am a nuclear power.” That is a whole second side of it, that attitude that we would have to contend with, that is not necessarily containable.

Senator MARTINEZ. And it is not limited to the Middle East because that includes the Western Hemisphere, as well.

Yes, I am sorry. I am way over my time, but—

Ms. MALONEY. I realize we are over our time—

Senator MARTINEZ. That is all right.

Ms. MALONEY.—but let me just make a couple of points.

Senator MARTINEZ. Thank you.

Ms. MALONEY. I recognize that the Gulf states spend a lot of time talking about the Iranian threat, but they don’t spend a lot of time doing anything about it.

Senator BAYH. When you are contemplating an apocalypse, Senator, it is worth taking some time.

Senator MARTINEZ. I appreciate that.

[Laughter.]

Ms. MALONEY. They don't spend a lot of time doing anything about it, and they may be grabbing that by the lapels, but they have been very averse to doing anything that would curtail their business relationships with Iran and their political relationships, both of which are quite substantial. So I will take that rhetoric much more seriously when I see them behaving in a way that suggests that they believe that that threat is as real as they say.

In terms of the threat of force and the inability to contain the Iranians or deter them, I think that that puts a very problematic sort of choice for American foreign policy. The inability to talk about deterring Iran in this Capitol is stunning to me. We have to recognize that we cannot necessarily control the outcome in Iran and we have to be able to develop policies that are intended to deal with whatever we may face in the future. And so we have to have a serious discussion about how we would handle a nuclear Iran, because that eventuality could be upon us much more quickly than we suspect.

And for those who suggest that Iran is somehow much greater and much more severe of a threat than either Maoist China or Soviet Russia, I would say that your memories are probably very short.

Senator BAYH. Ambassador, I think we would like to hear from you on this question, but then out of courtesy to Senator Johanns, we will need to turn to him.

Mr. BURNS. I will be very brief, Senator. I did want to join this discussion. I think it would be unwise to limit the President's options should negotiations and sanctions fail, and I would bet that they probably would. To be left with only one option, military force, when that option is fraught with difficulties for us—a third war in the Middle East and South Asia in a decade—I think would be very unwise of us as a country, and therefore, we need to look at containment.

The Soviet Union and Communist China were far superior to Iran, present-day Iran, in their military strength and their threat to the United States. We have the means and we have the partners in Israel and the Arab states to contain the Iranians. It ought to be an option alongside the use of force that we ought to be looking at very carefully, and the President ought to decide what is best for our country if that time should come. It may come in the future.

Senator BAYH. Thank you, Ambassador.

Senator MARTINEZ. Thank you. I appreciate the indulgence.

Senator BAYH. Senator Johanns, I apologize. In my intent focus on our witnesses' testimony, I did not notice that Senator Menendez reentered and he is ahead of you on the queue, so I apologize for that.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman. That is the first time someone has not been able to notice me, so I like that, actually. It means I have withered away a little bit in the process.

Senator BAYH. Hardly.

[Laughter.]

Senator MENENDEZ. Let me thank you all for your testimony. I know that the G-8 has set the September meeting of the G-20 as supposedly a deadline for Iran to accept negotiations or face stronger sanctions. My question is, and I saw Secretary Clinton's speech discussing in the Council of Foreign Relations engagement, but at the same time saying that the opportunity doesn't remain open indefinitely. So how can the G-8 prevent Iran from stalling and what is, in your view, what would occur if Iran has refused to accept the invitation to engage? What should be done then?

Mr. LEVITT. I think what should be done is an immediate movement to try and pick off the low-hanging fruit for multilateral designations at the United Nations, and by low-hanging fruit, I mean those entities that we know designating them would have an impact and that have already been called out at the U.N.—banks and the IRISL, the shipping line, in particular. That should be done both because it would have an impact and it should be something we could do quickly because the U.N. has already called them out.

But we need to do much more than that, and as we all have said, if we really want sanctions to be able to have a significant bite, they are going to have to be multilateral. We can't go this on our own. Unilateral sanctions on the margins can be effective, as well, and that might be a useful means of filling in the blank some of the time as we are trying to negotiate multilateral sanctions.

To me, the critical thing is that we do something and we do something quickly if Iran doesn't respond to our offer by the deadline that the administration has set. I have often said that I think what made the first U.N. Security Council resolution on Iran most effective was not—of the several we have had—is not just that it had the sharpest teeth, though its teeth were not all that sharp, either, but that it was unanimous. And the fact that subsequent resolutions were not is something that the Iranians paid a lot of attention to.

So we should be working now—I hope we are working now very, very hard diplomatically with our allies to secure agreement so that if the G-20 comes and goes, we don't then have a whole bunch of other deadlines by which a few more weeks and a few more weeks and the UNGA and something after that, because what everyone is clear on is that we don't have time and that the Iranian strategy will be to buy time.

Senator MENENDEZ. Yes?

Ms. PLETKA. I just want to make a point of clarification. I think that, as several members have alluded to, that the G-20 deadline, and I know the Congress passed a Sense of the Senate on it, it is not a deadline as it has been described. You were about to say the same thing. It has been described as a time to reassess.

And so for those who are conceiving of this as a moment, a launching point for decisive action, whether that action is multilateral sanctions or United Nations resolutions or whatever it might be, I think that that is not correct. The President himself in his discussions with Benjamin Netanyahu gave the Iranians, in fact, until the end of the year. But even there, I don't think that we can think of that as a hard deadline. So—

Senator MENENDEZ. Well, that raises the question. So let us accept—I accept that it is a time to reassess. We can keep reassessing this ad infinitum. The question is—

Ms. PLETKA. We have been.

Senator MENENDEZ. We have been, which is what worries me. The question is whether it is a determination that you can't, as Dr. Maloney said, you are not going to affect the outcome, and if you come to that conclusion, then you have to look to your next step, or the question is can you affect the outcome in some way, and if so, then what is that. It just seems to me that when we create the impression that we are reassessing without action, then I think if I was the Iranians and my goal was theirs, that I would love all these reassessments. So what is our action?

When I hear you, Dr. Levitt, talk about multilateral actions, I agree. So how do you get the Chinese and the Russians to join you? What is your leverage there? Ballistic missile issues? Anti-defense missiles? How do you get them, engage them on this critical issue?

Mr. BURNS. Senator, I just would make two points in response to your question. First of all, the Iranians have had an awfully long time to consider this offer. It was first made by the P-5—most of those countries are in the G-8—in June of 2006. This is not a new offer. I think they are unlikely to accept the offer.

But let me speak up for reassessment. I think this is such a highly complex environment following the elections, where we are going to want to try to capitalize in divisions in Iran, that President Obama is right not to say right now, here is what I am going to do. He ought to wait and see if the Iranians accept this offer. If they don't, then he has a much—he is greatly strengthened to turn to the other members of the G-8 and G-20 and say, we tried to negotiate. We had a good faith offer on the table. Now you need to join us, Russia and China, in sanctions, because this has gone on long enough.

I think the President is actually in a very strong position internationally, stronger than, let us say, President Bush was a couple of years ago, and I worked for President Bush and, of course, wanted that policy to succeed.

So this is set up not so badly for us, and reassessment doesn't mean inaction. It means actually that we might be able to get to a period of action with greater international and multilateral strength. That will be the test sometime this autumn.

And I wouldn't want, just as a former diplomat, I certainly wouldn't want to impose on President Obama an outsider's view of what his deadline is. I think he will be in the best position, given his talks with Hu Jintao and President Medvedev and others, of when the time has come to move toward that tougher sanctions regime.

Senator MENENDEZ. Yes, sure.

Ms. MALONEY. I would just say the Iranians never actually turn down an offer. They always propose their own offer, which tends to be something that is completely unreasonable by most external standards. And I think what we have to be prepared for is not an Iran that is simply unwilling to speak on any basis, but an Iran that comes back to us with something way out there but which then is kind of grabbed by the Chinese and Russians and others,

and potentially they will do this in advance of September, as a rationale for refusing any further action. And I think that is where our efforts have to be focused on how do we make the case that an Iran that is not capable of putting forward a serious offer is an Iran that needs to be the subject of serious multilateral sanctions.

Senator MENENDEZ. And, Mr. Chairman, if I may, just one last question. How do you get the Russians, for example, to cease its arms sales, specifically sophisticated anti-aircraft systems, to Iran? How do you incentivize them here to move in the direction that we want to see and that is in our mutual interest? Any thoughts on that?

Ms. MALONEY. Well, I mean, I will say that I think what the administration has tried to do is, as they say, reset the relationship and develop a level of trust and understanding in our mutual interest and goals that the Russians will be willing to put some of their own economic interests on the back burner in order to continue and potentially advance this bilateral relationship.

The difficulty with that kind of a strategy is it is a long-term strategy. It is not a short-term strategy. And I don't think we are in a position yet where the Russians are likely to do that.

I also don't think the threat of force terribly worries the Russians. They probably can see an upside to that, which is that oil prices would go up and they would be the primary beneficiary and supplier of choice under a set of circumstances where the Gulf were in flames.

I think where we do have some leverage is with the Chinese, because they have a long-term view. They are trying to sew up some opportunities in Iran, but they are also looking to all their relationships with the other Gulf oil producers because of the significance of energy for their economy, and I think that is where we may be able to create some new leverage. By moving the Chinese, we may therefore help move the Russians.

Senator MENENDEZ. Thank you, Mr. Chairman.

Senator BAYH. Thank you, Senator. Very interesting questions and excellent responses.

Thank you for your patience. I just have a few more questions and then we will wrap the hearing up.

Dr. Levitt, you testified, and I think accurately, and several of the other panelists referenced the financial sanctions that have been put into place which have raised the cost of doing business on Iran, but not modified their behavior. But there is something to be said for gaining some leverage. They are increasing the cost of them doing business.

I would be interested in your assessment or other panelists assessments, if we could get some sanctions on the import of refined petroleum products. Now, they are moving, as Dr. Maloney suggested. They are aware of their vulnerability. They are moving to increase their refining capacity. But we do have a window here where they are not there yet. If we could get some sanctions on the importation of refined petroleum products into Iran that were reasonably successful—not perfect, but reasonably successful—how much would that increase the cost of doing business for Iran?

Mr. LEVITT. Significantly, but I can't measure it for you. In other words, 40 percent is a lot of oil, domestically consumed oil. The big

shift here would be moving from a targeted financial measure, which is trying to target illicit actors engaged in illicit activity and not the people of Iran, moving toward one that begins to target the people of Iran in a way to put pressure on the regime since the fact is that regime stability is the only thing, as you have heard, that they care more about than the nuclear program.

I think that the idea of giving the administration this tool is a wise one, but we also need to think creatively. There are lots of ways to skin this cat. For example, we have talked a lot about the formal sanctions. Many would argue that at least as effective have been the informal sanctions, the leveraging of market forces, going out and meeting not only with governments, but also with the private banks, the Treasury dog-and-pony show which State was actively engaged in, as well. This was—

Senator BAYH. Your testimony is that the combination of either formal or informal would increase the cost of doing business potentially a lot—

Mr. LEVITT. Correct, and especially—I am sorry.

Senator BAYH. I was going to be interested, then, and the next question would be, enough that it might actually get them to think seriously about moderating their behavior or not?

Mr. LEVITT. On their own?

Senator BAYH. It has gone up the scale, but is it enough?

Mr. LEVITT. I don't think it is going to be enough. I don't think it is going to be there yet, especially if it is—unless it is a truly multilateral international effort focused on petroleum.

Senator BAYH. I think there was an agreement between you and Mr. Burns. I think you both agreed that, ideally, multilateral approach would be much more efficacious, but with your caveat that there was some utility in a unilateral approach if you just had no recourse other than that. But you would agree that if we could get cooperation, as difficult as it might be, that a multilateral approach would be the ideal path.

Mr. LEVITT. Yes, and there is a third option, and that is taking the informal sanction approach and moving beyond the financial sector, and moving beyond State and Treasury to other agencies, Commerce in particular, and moving beyond to the insurance industries, the petrochemical industries, and having this conversation. They, too, have shareholders. They, too, are concerned about reputational risk and due diligence and fiduciary obligations to shareholders. There are other levers that we can press here that can also be things we shouldn't be doing. None of this is an either/or.

Senator BAYH. Thank you, Doctor.

Ambassador, you might have some thoughts on that. Again, my question is, this continues to—getting back to my original question, they respect strength and material consequences to them focus the mind, give us the best chance of moderating their behavior, leading to successful negotiations. The importation would ratchet up the pressure, but is it enough for them to begin to focus, wait a minute, this is something we just can't ignore anymore. Perhaps we need to start thinking about some sort of negotiated settlement here.

Mr. BURNS. Thank you, Senator. I think that the Congress would be right to give the President greater authority to impose sanctions in the future. I know that your bill intends to do that—

Senator BAYH. It does, with the waiver provision that you have noted.

Mr. BURNS. Exactly. Forgive me for sounding like a broken record here, but I do think that it is not enough to inflict economic pain on the Iranian government at a time when they are, if you look at the IAEA reports, proceeding vigorously on their nuclear research. And so I think we have to have a decisive impact, and that would be an agreement that would encompass the Russians, the Chinese, the Europeans, and Americans on truly decisive sanctions.

I do think the only way to get there is through an engagement strategy showing the willingness to negotiate, which then enhances the power of the United States to say to the others when those negotiations haven't worked out, you have to try it our way.

Senator BAYH. What is your response to Dr. Maloney's testimony that, well, the Iranians will probably at some point after delay agree to negotiate and then put out incredibly unreasonable counterproposals that will be seized upon by some of the countries you have cited whose cooperation we need as a reason to do nothing. What do you think about that?

Mr. BURNS. That is exactly—she is exactly right, as usual—

Senator BAYH. So how do we deal with that?

Mr. BURNS. That is what happened over the last several years. How we deal with that, I think, is having prior agreements with all the governments that Iran will not have the capability of dividing and conquering, that we are going to stand together. If a certain amount of measurable progress is not made in a very short time in negotiations, all of those parties would turn to sanctions. I don't think that is too much for the United States to ask of these other negotiating partners, like the Russians and Chinese.

Senator BAYH. Do you think that is a reasonable prospect, even given the Chinese commercial interest and the Russians' commercial interest?

Mr. BURNS. I think it is a difficult prospect. I am not sure this strategy will succeed, but it is worth trying because the only other alternatives, I think, would be worse, such as the resort to military force at this time. That would be worse for the United States, in my judgment.

Senator BAYH. So your testimony is clearly that a unilateral approach gives us the best prospect of success, so we need to focus on what it takes to get the other countries, including India, I think, who is doing a fair amount of business there, to participate in this. And it would, according to Dr. Levitt, substantially increase the cost of doing business, perhaps so much if we can take a unilateral approach, Ambassador, that it would get them to contemplate modifying their behavior?

Mr. BURNS. Well, my belief is that we cannot have a solely unilateral approach, that some of these steps might be helpful in constructing a larger strategy, but in essence, we have to lead a coalition. We have to start a coalition here, lead it, and keep it unified. That is going to be very difficult to do, but it is worth trying and there is time to do it.

Senator BAYH. Ms. Pletka or Dr. Maloney, do you have any response to what your two co-panelists have said?

Ms. MALONEY. Getting back to your original point about the impact of a ban on refined products, I think, depending on the environment in Iran, it could play into some change in the regime's calculus. I play out what this would look like on the ground, and potentially with smuggling, with disrespect of the provisions of the act, Iran might be down, say, to 20 percent of its refined products actually coming into the country, so they have got a deficit potentially of 20 percent.

What happens on the streets? You have got people waiting in long lines. You have got a lot of frustration. Now, the regime has been successful in cutting demand for refined products. It has imposed both a rationing program and also tried to gear up CMG vehicles around the country for public transportation. So it could cope for some period of time, but—

Senator BAYH. Could I interject for just a moment? You previously had testified that with the controversy surrounding the election, the protests in the street, perhaps they are a little bit more worried about the stability of the regime, although they are going to retain control in the longer term. Might it not be true that if you added this additional economic element to what is already now a changed political situation that perhaps that increases their anxiety level a bit about their own situation?

Ms. MALONEY. I think it absolutely—

Senator BAYH. Because I was very impressed by your original statements to my first question about what could we learn from their behavior post-Afghanistan and Iran and you said they do a cost-benefit analysis. Might this not increase the cost to get them to change that calculus a bit?

Ms. MALONEY. Absolutely. I think that it plays into a very different environment in Iran, and one in which the population would be far more willing to blame their own regime rather than outside forces for this action. But I also would note the caveat that the Iranians are not terribly good at capitulation. This is a regime that tends to believe the best defense is a good offense, and so I think we also have to be prepared that Iran, under pressure from within, under pressure from greater sanctions from without, would, at least in the immediate term, probably prove more difficult to deal with.

It doesn't mean that it wouldn't change their calculations. But to the extent that we have got a timing issue here, and the ticking clocks metaphor gets used a lot, we have to try to think about exactly how we get them to the table if they feel entirely cornered. So I think—

Senator BAYH. Well—

Ms. MALONEY. I think there is a cost-benefit to it from our side, and I think, like Ambassador Burns, the waiver is key because to the extent that the Chinese see their economic interests threatened, they won't play ball.

Senator BAYH. Having them at the table feeling cornered seems to me to be a better set of circumstances than the ones we are looking at today, because then at least if we can come up with a face-saving way out of it for them if they agree to modify their behavior,

I mean, then you have made some progress. Right now, it seems that they just feel they can kind of continue their current course without much—at least without consequences they are perfectly willing to bear, but thank you.

Ms. Pletka, anything?

Ms. PLETKA. The only thing I would say is to underscore and agree with what you just said. The wisdom of having an engagement policy is giving them a way out when they are backed up into a corner. It is allowing them the graceful exit. The problem is, if you have an open door on one side and absolutely nothing pushing them toward it on the other side, or nothing credible pushing them toward it on the other side, then the engagement policy becomes nothing other than an open hand.

We can stand waiting for an awfully long time, and this is what we have heard over the course of many, many years. Don't do that because around the corner is the persuasive moment when everybody will join with us. No, no, no, don't do that because it will really take away from our credibility and our bona fides.

But what the Iranians have seen over the same course of time is that we have changed our red line every single time and we have always been willing to do it. First, we didn't want them to get uranium conversion. Then we didn't want them to do enrichment. Then we wanted them only to suspend enrichment. Now we want them to suspend enrichment, but maybe we could even have an enrichment facility in Iran. Goodness me, what a great idea.

So I think the Iranians look at that, and just as we make assessments about them, and we have all talked about them, they look at us. And what they see is a United States that isn't terribly decisive. They see an international community that isn't going to come together. And they see the likelihood that they are going to continue. When people talk about the possibility of containment, the way they see that, the way they reacted to Secretary Clinton's statement last week in Thailand was that the United States will accept a nuclear Iran. They will all talk about deterring us and containing us, but at the end of the day, they will accept a nuclear Iran.

And I think at the end of the day, the truth is, but a lot of people aren't willing to say it, that they are willing to accept a nuclear Iran. A lot of people in this town.

Senator BAYH. Well, the hope here is that we are taking a calibrated approach and the hope is that we can empower the President, working in a multilateral context, to change the cost-benefit analysis in Tehran by—in a different political environment now, somewhat more unstable, to add some economic and financial difficulties on top of that that might get them to feel cornered, Dr. Maloney, but not without a way out. And that is what we are—if they agree to moderate their behavior, then there is a way out, and in the fullness of time, God willing, the regime will change. But at least in the near term, in their own minds, they will have relieved the pressure and perhaps they will be internally in a better situation from their own point of view.

I don't know, you look like you seem a bit skeptical, you are thinking a bit skeptically. It is incredibly difficult, but that is the challenge here.

I had one final question and this might be a question—well, there are so many ways we can go, but you have been most patient. Two final questions, actually.

I was in Moscow—it has been some time. The world has changed a lot in the last year and a half. But I met with the energy minister there whose portfolio is to deal with some of these questions with Iran and he used a word that caught my attention. He said that the Iranians were terrified—that is the word he used, terrified—at the prospect of perhaps some restriction, not on their import of refined petroleum products. That is the next step. We began with the financial issues Mr. Levitt worked on. We are now contemplating refined petroleum importation. He said they were terrified at the potential for any restrictions on their export of petroleum because they rely so heavily upon that.

Now, that would have all sorts of consequences for the global oil market, and at this moment in the global economy, it is unlikely we would go there. I think maybe Dr. Maloney, one of you pointed out the Russians actually think about that in terms of their own self-interest.

But I would be interested in any of your thoughts, and how we can work with the Saudis and some others in a multilateral way to deal with some of the consequences of something like that. Is that—if the Iranians are terrified about that, isn't it at least worth us thinking about?

Not doing today, but at least ultimately as an end-game strategy and perhaps doing some things to mitigate the economic consequences to us and the rest of the world of such a scenario.

Mr. BURNS. I believe it makes sense for the United States to consider sanctions on energy because that is the source of Iran's national power and its economic power. The question is: Will the Arab governments agree with that? Will the Russians and Chinese agree with that? It has not been tested. We have not put that on the table before. Giving the President that kind of authority, therefore, expands his options and I think enhances, strengthens his diplomatic portfolio. It is a good thing to give him that authority.

I want to just say, however, I do not think we should consider the Iranians as 10 feet tall here. The Iranian threat to the United States, to Israel, to the Arab countries is not in any way comparable to what we faced in the middle part of the 20th century through the early 1990s with the two great communist powers. That threat was far greater.

Therefore, we ought to have a little bit of self-confidence that with a skillful diplomatic approach that combines these various elements that we have been talking about, Senator, and that are in your bill—engagement and sanctions and keeping the threat of force on the table—that is the proper way for the United States to proceed. And I very much disagree with the criticism that somehow President Obama has been soft or weak or indecisive or he is not keeping to deadlines. Frankly, I see President Obama continuing a lot of the strength that was in President Bush's policy, and I think what he has been able to do is to put Iran on the defensive internationally. And, frankly, Iran is weakened now as a result of the political crisis over the past summer.

So I do not assume that somehow this is a strategy that is bound to fail. It may not succeed, but it is worth trying for the United States, and we ought to have the self-confidence that our President has put in place a lot of different initiatives now that might come together, hopefully will come together, for a successful policy.

Senator BAYH. Well, the hope is to move progressively, with timelines and real consequences for failing to meet them, to ratchet up the consequences, to change the cost/benefit analysis in Tehran, and then, God willing, avoid very difficult decisions, you know, at the end of the day if all that does not work. That is why I asked about the exportation, because if they are truly terrified about it, at least having some prospect of that out there might get them to focus on their cost/benefit analysis. But I am well aware that there are some—that would be very difficult on us economically, potentially, if we do not move to mitigate some of that.

Perhaps I will end up with—both you and Dr. Maloney have suggested—you, Dr. Maloney, spoke about deterrence. You have talked about the Iranians not being, you know, 10 feet tall and that sort of thing. When you sit in these chairs and the chairs that some of you have served in previously, at the end of this road lies an assessment of their intentions and their psychology.

You are correct, the military capabilities of the former Soviet Union and some of our previous adversaries make what Iran can do pale by comparison. But as best we can tell, they were never suicidal. The Iranians may very well not be suicidal. At the end of the day, Dr. Maloney—and here is my question to all of you at the end of this. At the end of the day they may be irrational, cost/benefit analysis—who was that? Jeremy Bentham? They may view the world in those sorts of terms. But they do have some leaders that make apocalyptic statements. They do have some religious fanatics amongst their midst. And if the consequences of error are the launching of a nuclear weapon, how great a risk do we run that our assessment of their psychology is wrong? Even if there is a relatively small possibility that they might engage in such behavior, the consequences of that are so great—granted, the consequences of acting to try and prevent them from doing that, if all these steps we have outlined here today are unsuccessful, is certainly no walk in the park and should sober all those who advocate such a step.

But that is ultimately the decision that we may very well be confronted with and why this hearing and these steps to try and change the analysis are so important, because the answer to that question may in large part be unknowable with consequences either way that could be potentially very adverse.

Ms. MALONEY. Well, I mean, deterrence is effectively about risk and about the psychology of your adversary, and I think you are right to raise the extent to which we have not always forecast Iranian behavior accurately and the extent to which certainly the leadership at this stage is prepared to use violence to advance its aims and essentially secure its power.

At the same time, I think you could have made equally, perhaps even more compelling arguments about the psychology of communist Russia, about the psychology of Maoist China and their willingness to use violence, their ability to be deterred by the threat of violence, and their interests in protecting or preserving

their own citizens, and it worked. And I think that the same laws of deterrence applied to Iran will work. They have worked. We have deterred Iran from engaging in some of the worst behavior that certainly some within the regime would have engaged in without any sorts of curbs on their activities. And I think we can certainly deter and contain a nuclear Iran.

Let me just say, in answer to your previous question—and I realize that I am indulging here, but I think that the export question is certainly far more of an existential threat to the Iranian regime, but it is one that they recognize that also has some costs to the international community, particularly in the wake of this global economic crisis. At this stage, there is sufficient spare capacity for the world to live without Iranian exports, but it will have an impact on the price.

I think the easier way to get at this, because you will never get—if you cannot get multilateral agreement to the sort of very modest measures that Dr. Levitt suggested, you will never get multilateral agreement on a ban on Iranian oil exports short of them testing a nuclear weapon. I think the easier step would be just begin talking about targeting investment in their energy sector, writ large, because the Iranians know better than anyone that they have a production decline, that they have technological and now, given the financial crisis, some financial, some issues of capital that they need international involvement in their sector in order to avert potentially becoming an importer of oil rather than an exporter.

Senator BAYH. So you would agree with the sentiments of the Russian energy minister I spoke with? He used the words “existential threat,” that they would be very concerned about even beginning to discuss something along those lines.

Ms. MALONEY. I think even those discussions, the suggestion that the Chinese and others would be willing to go along with anything that involves energy investments would be very powerful.

Ms. PLETKA. Senator?

Senator BAYH. Yes.

Ms. PLETKA. May I just address an issue that has not arisen? We have gotten drawn into the question of parallels and similes with the Soviet Union and Maoist China, and I think that Ambassador Burns is absolutely right. There is no comparison in terms of the might, the power, or the threat that they represent to the United States. Neither the Soviet Union nor Maoist China were especially interested in annihilating the state of Israel. Each of the members, I noticed up here, regardless of party, happened to mention our alliance with the state of Israel, and I think that we are interested in the security of the state of Israel as well as the security of our own homeland and other allies. And, in fact, Iran does have an ability to do significant damage—

Senator BAYH. Well, and if I could interject, the Israelis obviously have an interest in their own security, and we are not the only actors on this stage.

Ms. PLETKA. That is exactly right.

Senator BAYH. And if some others feel sufficiently threatened, they could engage in behavior that would then implicate us and a whole chain of events could take place.

Ms. PLETKA. Exactly, that would be enormously destabilizing in the region. We have not talked about that, but obviously the implications are very serious for us and for our allies. And, of course, you know, for us to stand by as the Jewish people twice in the space of 60 or 70 years face the prospect of genuine annihilation is something that is a fairly daunting prospect and not something I think that this Congress or most of us are willing to indulge in.

Senator BAYH. Well, I think we would all agree that we have a strong interest in avoiding that.

Anything else? You have been very patient, and I want to thank you. This has been a very good hearing, and your testimony has been very thoughtful. And I want to thank you for that. Anything else, Ambassador, anything you would like to add, anything that we did not touch upon?

Mr. BURNS. I just want to thank you for the opportunity to testify, and I want to agree with you that the prospect of a nuclear-armed Iran is unthinkable for our interests and for Israel's interests. But I am convinced that the best way to protect Israel's interests—and everyone wants to do that—as well as ours is not to leap to the solution of military force at this point. It is to engage in the more complex diplomatic move that I think President Obama is currently engaging in.

Senator BAYH. Well, as Senator Lieberman indicated in his testimony and I tried to indicate in my opening remarks, the purpose for this hearing and for some of our initiatives is to try and make negotiations—maximize the chances that we do not reach that point, to try and buttress the negotiations with real consequences from a position—to change the cost/benefit analysis so that, God willing, we do not have to have a second panel here at some future date discussing what to do next.

Thank you all very much. The hearing is adjourned.

[Whereupon, at 12:19 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions follow:]

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Thank you Mr. Chairman.

Once again, the Committee meets to hear testimony on Iran's support for terrorism and its determination to develop a nuclear capability. This time, however, we meet at a time that is marked by weeks of unprecedented social, economic, and political upheaval in Iran.

While many things remain unclear about Iran and its future, two remain very clear—Iran's nuclear ambitions and its sponsorship of terrorism.

Iran continues to make strides in both its nuclear and missile programs, and it is still recognized as the "Central Bank" for terrorist financing.

Over the years, various Administrations have attempted, with little or no success, to moderate the regime's nuclear aspirations and to curb its support for terror.

Certainly, time and experience have shown that economic sanctions can be a mixed bag as a foreign policy instrument. Sanctions and other financial measures, directly or indirectly, have restrained some of Iran's activities. But, we have yet to implement a sanctions regime that produces the desired result.

It has become clear that we need a fresh approach and that stricter controls may be necessary.

I appreciate our witnesses willingness to appear before the Committee. I can't help but note, however, that the current Administration is not represented at today's hearing.

The members of this panel will undoubtedly provide valuable insight on the previous administration's efforts.

Current officials, however, would certainly be in a better position to provide details, or even discuss generally how the President intends to engage Iran diplomatically.

I hope we will get the opportunity to have that discussion sometime in the near future.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR MIKE JOHANNIS

Thank you, Mr. Chairman. And I'd also like to thank the witnesses testifying before us today, about an issue that has been in the news quite a bit these past few weeks. I recognize this hearing is not primarily about Iran's Presidential elections in June. But those elections have affected both the regime's willingness to negotiate and raised the cost of reaching out too far to this Iranian government. The Obama Administration came into office promising to extend its hand to nations that it felt had been unnecessarily threatened and bullied under the previous administration. In March, the President made a direct address to the Iranian nation, in which he sought to offer the Iranian government legitimacy as an equal partner in constructive negotiations over its nuclear program.

His intention was commendable. I too am extremely hopeful that the current diplomatic process can produce a solution. I am thus proud to be an original cosponsor of S. 908, the Iran Refined Petroleum Sanctions Act. I understand that the President needs a great deal of flexibility to manage these highly delicate negotiations. I absolutely do not want to have the United States face yet another crisis in the Middle East. But at the end of the day, we in the United States do not dictate the pace of events. Nor, I believe, do our allies and partners in the "P five plus one" group negotiating with Iran.

For years, successive Administrations have requested just what you have recommended in your testimony, Dr. Burns; that we allow the executive branch the greatest possible flexibility in instituting sanctions. I think Congress has indeed been flexible. Since the Iran-Libya Sanctions Act was passed in 1996, no foreign firm has been penalized for investing in Iran's energy sector. That omission became even more glaring after the 2002 revelation of Iran's hidden nuclear facilities, and the subsequent beginning of negotiations over Iran's nuclear program. Initially, the Europeans took the lead in these efforts. The United States has been repeatedly assured that our European partners are equally concerned with Iran as we are, and equally committed to finding a diplomatic solution.

But then why does German and French and Italian trade with Iran continue? Why is it rising? Why does the German government, itself part of the "P five plus one" negotiating group, continue to offer its companies export credits for their sales to Iran? I cannot understand how long our partners need before they get serious. The latest deadline I have heard—a soft deadline—is this fall, before Iran needs to reply to our latest offer. If it has not reciprocated by then, the United States and its partners will reportedly impose—in the words of the French President, among

others—“crippling sanctions.” But these sanctions almost certainly will require a strong U.N. Security Council resolution to be truly effective. And I don’t see how we get from here to U.N. Security Council unanimity by waiting for 6 months, or a year, or whatever.

I am unclear on why Russia and China would support a massively ramped-up U.N. sanctions regime when they never have in the past. Is there reason to think that they were waiting for direct, unconditional U.S. engagement with Iran before they were convinced of our sincerity? I find that unlikely. I do not think the Administration’s engagement effort will change anything fundamental in Russia or China’s strategic view of this situation. China, in particular, is aggressively deepening its business relationship with Iran. Is that partnership likely to be outweighed by the strategic value of another hand reached out to Iran’s fist? I doubt it. If Iran responds to the U.S. offer by this fall—and I imagine its leadership, as masters of the delaying tactic, may well do so, to prolong the process—negotiations will stretch on. And a strong U.N. resolution will still be opposed by Russia and China.

I find this a highly realistic scenario. And what worries me is that while our Administration and our partners continue to call for more time, and more negotiations, and flexibility, our best window for sanctions is slipping away from us. I believe a comprehensive application of economic sanctions on Iran is necessary and could be effective, given the state of its economy and the regime’s actions in the recent Presidential election. But these measures are critical now, not in a year or so.

I do not mean to sound too gloomy. But I—and I think others in this room—have a terrible feeling that this situation is close to slipping beyond our ability to influence it. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR JOSEPH I. LIEBERMAN

Thank you, Senator Bayh and Senator Shelby. I greatly appreciate the opportunity to appear before you and your distinguished Committee this morning as you take up what Defense Secretary Gates recently characterized as the greatest threat to global security today: the pursuit of a nuclear weapons capability by the Islamic Republic of Iran.

I am deeply grateful to the Chairman of the Banking Committee, my good friend and colleague Chris Dodd, for calling today’s hearing. Under Chairman Dodd’s leadership, the Banking Committee has played a critically important role in the response to Iran’s nuclear ambitions—most notably, in the sanctions bill your Committee overwhelmingly endorsed 1 year ago.

I also would like to applaud you, Senator Bayh, for chairing this hearing, and for your distinguished and strong leadership on this issue. It has been my privilege to work closely with Senator Bayh this year as we, together with Senator Jon Kyl, put forward S. 908, the Iran Refined Petroleum Sanctions Act.

As of this morning, no less than 71 members of the Senate have joined together as cosponsors of S. 908. This includes both some of our most liberal and some of our most conservative colleagues—Senators who do not see eye-to-eye on many issues. And that is precisely the point.

In uniting behind S. 908, our bipartisan coalition sends an unambiguous message of unity, strength, and resolve to Iran and the rest of the world, that, whatever other differences may divide us, they are not as important as what unites us—our shared determination as Americans to do whatever is necessary to prevent Iran from getting nuclear weapons.

Today’s hearing could not take place at a more critical moment. Last week, the Senate unanimously adopted an amendment to the NDAA that Senator Bayh and I put forward, together with Senator Kyl and Senator McCain, and thereby for the first time endorsed an explicit timetable for imposing sanctions against Iran.

Specifically, our amendment urges President Obama to adopt tough new sanctions against the Central Bank of Iran in the event that the Iranians fail to respond to his historic outreach by the time of the G-20 summit in Pittsburgh on September 24, 2009, or if they fail to suspend all enrichment and reprocessing activities within 60 days of that summit.

I have been a supporter of the President’s effort to engage the Iranians in direct diplomacy over the past 6 months. Thanks to this outreach, it should now be clear to the world that the obstacle to the peaceful resolution of Iran’s nuclear program is not in Washington, but in Tehran.

Unfortunately, however, it has also become increasingly clear that Iran’s current leaders are unlikely to engage in a serious negotiation with the international community over their nuclear program until they are under existential pressure to do so. In this way, crippling sanctions are not only consistent with diplomacy; they are

critical to any hope of its success. It is precisely by putting in place the toughest possible sanctions, as quickly as possible, that we stand the best chance of persuading Iran's leaders to make the compromises and concessions that the peaceful resolution of this crisis will require.

In fact, this is exactly the formula that President Obama himself endorsed a year ago when he argued that the key to preventing Iran's nuclear breakout is, and I quote, "aggressive diplomacy combined with tough sanctions."

Given the September deadline endorsed by the Senate last week, I respectfully hope that your Committee will act expeditiously to provide the President with every authority he needs to impose crippling sanctions this fall—starting with S. 908.

The logic of S. 908 is simple. During last year's Presidential campaign, President Obama repeatedly pointed to Iran's reliance on imports of refined petroleum products as a point of leverage in our nuclear diplomacy. As Senator Bayh and I subsequently discovered, however, the President's authority to target the handful of companies involved in this trade is at best ambiguous. The Congress can end this ambiguity by passing S. 908. Doing so will not tie the President's hands; rather, it will hand him a new and powerful weapon in our diplomacy toward Iran.

The coming months will be critical in determining whether we stop Iran from acquiring nuclear weapons. As I know all of the members of this Committee are aware, time is not on our side. Whatever else we may debate or discuss about Iran, there is one reality we cannot afford to lose sight of: every minute of every day, right now as we speak, thousands of centrifuges in Iran are continuing to spin. Hundreds more are being installed every month. More and more fissile material is being stockpiled. Already, Iran has enough low enriched uranium to form the core of one nuclear weapon. Soon, it will have much more.

Simply put, every day that we wait, the Iranian regime is advancing closer to its goal—and the odds that we can persuade them to turn back from the brink, through peaceful means, diminish.

I thank the Committee for its time and consideration, and again express my gratitude for your strong leadership on this critical issue.

PREPARED STATEMENT STATEMENT OF NICHOLAS BURNS

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JULY 30, 2009

Chairman Dodd, Senator Shelby and Members of the Committee, thank you for the invitation to testify today on United States policy toward Iran.

I have had the pleasure of testifying to this Committee in the past as a government official. This is my first appearance as a private citizen. The views that follow are entirely my own.

One of the most important diplomatic challenges facing the United States is what we should do about an aggressive, reactionary and truculent government in Iran.

After 4 years in power, it is clear that the Ahmadinejad government is seeking a dominant role in the Middle East. It is pursuing with great energy a future nuclear weapons capability that would threaten Israel and our Arab partners. It continues to support the most destructive and vile terrorist groups in the region. It plays an influential role in both Iraq and Afghanistan, often in direct opposition to the United States.

Given Iran's confrontational policies on issues that are vital for American interests, we are, in many ways, on a collision course with its government.

In the short-term, we must assume that relations between our two governments will remain poor. We have had no sustained and meaningful diplomatic contacts in thirty years since the Iranian revolution.

Given the lethal nature of Iran's challenge to the United States, our government must respond to it with toughness and strength but also with ingenuity. One of our highest priorities should be to maintain America's leadership role in the Middle East and to deflect Ahmadinejad's own quest for regional supremacy.

But, we must also recognize that the near total absence of communication between our two governments is no longer to our advantage. We know very little about a government that exerts such a negative influence in the Middle East. President Obama has gone further than any of his predecessors in offering negotiations with the Iranian regime. I believe his instincts have been right in positioning the United States to regain the upper hand with Iran in the international arena. President Obama's outreach to Moslems worldwide in his Cairo speech, his video message to

the Iranian people and his pledge that the United States would participate in the Perm-Five Group nuclear talks with Iran have put us on the diplomatic offensive.

The result has been telling. The Iranian government has had no effective or coherent response to these overtures. It is now Iran, rather than the United States, that is considered internationally to be the party preventing the resolution of the nuclear issue.

This is not an insignificant accomplishment. Unfortunately, many in the Moslem world saw the United States, incorrectly, as the aggressor in the conflict with Iran in past years. President Obama has managed to shift global opinion. The United States is now in a stronger position to argue convincingly for a more tough-minded international approach to the Iran nuclear issue.

Given these developments, I believe that the best course for the United States is to continue to offer two paths to the Iranian authorities.

The first is the possibility of international negotiations over the nuclear issue. The United States and the other countries have declared their readiness to talk. The aim of these talks should be to convince Iran to cease its illegal nuclear research efforts. Should Iran not respond seriously and convincingly to this international offer by the autumn, the United States should turn to the second path by moving quickly and decisively with its key international partners to place very tough economic and financial sanctions on the Iranian government.

U.S. policy, in short, should be to increase pressure on the Iranian government at a time when it finds itself an international pariah with vastly reduced credibility around the world.

In many ways, Iran is now far weaker than it was before its June 12 elections and the subsequent revolt on the streets of Tehran and other major cities.

It is highly probable that the government's cynical and corrupt handling of the elections is a fundamental turning point in the history of the country. The demonstrations that followed the government's transparent intervention in the ballot counting represented the most critical assault on the credibility of the Supreme Leader and the government in the thirty-year history of the Islamic Republic. The reform movement that surged onto the streets was the strongest such protest movement in this entire period, representative of all age and ethnic groups and classes. And, while the government's brutal and anti-democratic actions on the streets appear to have been effective in quelling the demonstrations in the short-term, the reformers are unlikely to go away. It is more likely that the deep divisions created by the stolen election will be a major force in Iranian politics and society for some time to come.

Despite the relative quiet on the streets of Iran today, tensions and fundamental disagreements about the future of the government are simmering just below the surface. The situation in Iran will remain for some time to come highly volatile and unpredictable. Some experts on Iran believe the regime has retaken control of the streets for good and will continue to rule essentially unchallenged. But, many others believe that there is an equally good chance that the country will remain roiled by instability and division for months to come.

What is the proper way for the United States to respond to this potentially explosive situation?

First, I continue to believe that President Obama was correct to not inject the United States into the middle of the Iranian domestic crisis right after the elections. Had he done otherwise, it would have given the most reactionary Iranian leaders, such as Ahmadinejad, the excuse to charge that the United States was intervening unjustly in the domestic affairs of a proud country. By tempering U.S. statements and actions in the days following the election, I believe President Obama succeeded in keeping the international spotlight on Ahmadinejad rather than the U.S. Government.

Second, the United States and other governments around the world now face a highly difficult and complex situation in Iran. Inaction or choosing to ignore or isolate the Iranian government would allow Ahmadinejad to continue unfettered the nuclear research that the International Atomic Energy Agency believes continues unabated. Allowing the Iranian government to continue to build a nuclear capability with no effective international opposition is definitely not in the U.S. interest. Refusing to negotiate would weaken the potential for effective international action to pressure the regime.

The right policy for the United States, in my judgment, is thus to stand by the invitation for international discussions between the Permanent Five countries (the United States, France, the United Kingdom, Russia, China and also Germany) and Iran on the nuclear issue and to combine it with the threat of strong and immediate sanctions should Tehran refuse to negotiate seriously.

But, the offer for such discussions should not be open-ended. The offer to negotiate has been on the table for months. It would thus be reasonable to give Iran a deadline of this autumn to reply. If no serious response is forthcoming by then, the United States and the other countries would have every right to turn to draconian economic and financial sanctions.

Some will argue that any willingness by the Obama Administration to talk to Iran would legitimize the Iranian government and would be an affront to the courageous Iranians who took to the streets in opposition. They say we should either do nothing or move directly to sanctions.

I think the issues at the core of this dilemma are much more complex. The entire democratic world was outraged by the brutal actions of the Iranian government in the wake of the failed elections. The Iranian regime was seen for what it really is—a ruthless group of leaders who have used the power of the military and security services to terrorize their own population. The Iranian government deserves the most severe criticism for its mistreatment of the Iranian people.

While it may serve our collective sense of outrage and frustration to stonewall the Tehran government, that kind of policy is not likely to serve our core American interest—finding a way to prevent Iran from becoming a nuclear weapons power.

By supporting the international offer for negotiations, the Obama Administration is building credibility with countries important for any future negotiation or sanctions effort—Russia, China, the Gulf states, Japan, South Korea, Germany and other European countries.

If the United States refused to negotiate, we would likely have little subsequent international credibility to argue for tough sanctions. But, if we offer to negotiate and the talks fail, we will be in a much better position to assemble a stronger international effort to apply tough sanctions on Iran.

My best judgment is that, even if negotiations are held this autumn, they will fail due to the predictably unreasonable and inflexible attitudes of Ahmadinejad and his colleagues. It is highly likely, for example, that the Iranian government will not agree at the negotiating table to cease its enrichment of uranium as the United Nations Security Council has demanded in successive sanctions resolutions passed during the last 3 years.

The most important decision facing the United States and other countries is thus to decide what kind of sanctions would have the most significant impact on the Iranian authorities. In other words, our primary goal must be to find the most effective strategy toward Iran that will resolve the crisis on our terms and peacefully.

There are proposals for sanctions resolutions being debated in the Congress and wider public. I agree that the time has come for the United States and others to threaten much tougher sanctions on the Iranian regime.

My main recommendation for this Committee and the Congress, however, is to permit the President maximum flexibility and maneuverability as he deals with an extraordinarily difficult and complex situation in Iran and in discussions with the international group of countries considering sanctions. It would be unwise to tie the President's hands in legislation when it is impossible to know how the situation will develop in the coming months.

The most effective sanctions against Iran, in my view, would be those that are multilateral and not unilateral and those that the President could decide to either implement or waive, depending on events during the coming months. The most powerful signal to Ahmadinejad would be for Moscow and Beijing to stand alongside the United States in imposing collective sanctions rather than have the United States adopt its own way forward, absent consultation and agreement with our international partners.

It makes sense that the search for an effective sanctions regime should include initiatives (such as energy imports by Iran) that will strike at the heart of the Iranian government's strength. Senator Bayh and others have produced creative ideas for more forceful sanctions against Iran. It stands to reason that a much more aggressive sanctions regime would likely have a more powerful impact on the thinking of the government in Iran in the months ahead.

Still, my strong advice is to give the President the independence and flexibility he will surely need to negotiate successfully the twists and turns of this volatile issue.

As many Congressional leaders have stated, we must negotiate with Iran from a position of strength. The President would be wise to set a limited timetable for any discussions with Iran. He should be ready to walk away if progress is not visible in a reasonable period of time. He should also agree on the automaticity of sanctions with Russia and China, in particular, before any talks begin. In other words, Moscow and Beijing should assure the United States that they will sanction if the talks fail. China and Russia have acted unhelpfully by continuing to trade and sell arms

to Tehran as it thumbed its nose at the international community. If President Obama is to offer talks to Tehran, it is only reasonable for China and Russia to pledge to join us in draconian sanctions on Iran should the talks break down.

In this charged and unpredictable environment, with the stakes so high for American interests, it will be very important for the United States to keep all options on the table—meaning the United States should reserve the right to employ every option, including the use of force, to prevent Iran from becoming a nuclear weapons power. This marriage of diplomacy with the threat of force is essential to send a convincing signal to Iran that it must choose to negotiate soon.

While there is no guarantee that negotiations will work, the Obama Administration's diplomatic approach has several real advantages for the United States.

First, it may be the only way we will ever know if there is a reasonable chance for a peaceful outcome to the crisis with Iran. Second, a negotiation may be effective in slowing down Iran's nuclear research as a pause or freeze in uranium enrichment would be a logical demand of the United States and its partners if the talks continued for any length of time. Third, negotiations would serve to isolate and pressure the Iranian regime in the international arena. Finally, we will be no worse off if we try diplomacy and fail. In fact, we will be stronger. We will be far more likely to convince China and Russia to join us in sanctions.

I have one final thought to offer to the Committee today. We will not be well served if we allow the debate in our own country to be reduced to "negotiation or war" with Iran.

Should negotiations fail, stronger sanctions, not war, are the next logical step. And should sanctions fail, President Obama would face a difficult choice between using force or seeking to build a containment regime against Iran. While the stakes are high, there is nothing inevitable about war between the United States and Iran.

This is an extraordinary time in the history of the Iran nuclear issue. The Iranian government has been weakened by the national and international furor over its dishonest handling of the elections and the protests that followed. We should seek to weaken it further by the threat of unprecedented sanctions. Those sanctions are most likely to be agreed by the leading nations of the world if we try diplomacy and negotiations first.

What we learned from watching the people of Iran demand more liberty and a better government when they took to the streets is that Iran is not a monolithic country. Instead, it is a remarkably diverse nation in ethnic, religious, regional and ideological terms.

Now that it is apparent to the whole world that Iran is a society in crisis and a country fundamentally divided, we should look at our own long-term options in a new light.

We should reflect on the complex set of choices available to us as we seek to prevent a nuclear Iran in the short term and build, at some point in the future, a better and more peaceful relationship with the Iranian people.

Now is therefore not the time, in my judgment, for the United States to consider a military approach to this dilemma. Our interests will be far better served if the United States uses its diplomatic skill and dexterity to lead an international coalition to make an ultimatum to a weakened and despotic regime—agree to negotiations quickly or face a renewed international sanctions effort that will weaken the regime further.

We have the upper hand with Iran for the time being. We should seek to keep it. And, we should still believe that diplomacy might yet produce an ultimately peaceful resolution of this dispute without recourse to war.

PREPARED STATEMENT OF DR. MATTHEW LEVITT

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JULY 30, 2009

Chairman Dodd, Ranking Member Shelby, Committee members, thank you for the opportunity to appear before you today to discuss the utility and applicability of targeted financial measures as part of a strategic policy, leveraging all elements of national power to deal with the threats presented by Iran's nuclear program.

As a former Deputy Assistant Secretary of the Treasury who participated in the department's outreach to the private sector as early as 2006, I am often asked why I support the use of targeted financial measures—both formal sanctions and informal outreach to the private sector—if the use of these tools has not stopped Iran from pursuing a nuclear weapon. If these efforts have neither altered the decision-

making of Iranian leaders nor disrupted Iran's ability to continue developing its nuclear program, then are they really effective?

The answer is that targeted financial sanctions were never intended to solve the problem of Iran's pursuit of nuclear weapons. Sanctions are no silver bullet. On their own, these financial tools can only do so much. But coupled with other tools—especially robust diplomacy but also a credible military presence in the region—financial measures can effectively create leverage for diplomacy. That diplomacy should focus not only on Iran, but on Russia, China, our European and Asian allies, the Gulf States, and others.

What can sanctions accomplish? They are intended to advance any of the following three goals: (1) disrupt Iran's illicit activities; (2) deter third parties from knowingly or unintentionally facilitating Iran's illicit activities; and (3) impacting Iran's decisionmaking process so that continued pursuit of illicit activities is reconsidered.

Note, for example, that despite the many problems with the declassified key judgments of the November 2007 National Intelligence Estimate (NIE) on Iran's nuclear intentions and capabilities, the report accurately noted that the tools most likely to alter Iran's nuclear calculus—if any—are targeted political and economic pressure, not military action. According to the NIE, Iran's decision to halt its nuclear weapons program in 2003 was “in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work.” The key judgments conclude that the intelligence community's “assessment that the [nuclear weapons] program probably was halted primarily in response to international pressure suggests Iran may be more vulnerable to influence on the issue that we judged previously.”

Iran may or may not have actually halted its weapons program. Even if it did, this may actually mean far less than the NIE suggested if what was suspended was a piece of the program that could be quickly resumed at any time, but the potential of such tools to impact the decisionmaking process of key Iranian leaders is worth noting.

That said, recent events suggest that Iran's current hard line leadership sees the pursuit of a nuclear program and ongoing tension with the West as positive things that support their primary objective: regime survival. But even if the goal of altering the Iranian regime's nuclear calculus is not so likely under current circumstances, the other two goals of financial sanctions—(1) constricting the operating environment and making it more difficult for Iran to engage in illicit activities by disrupting their finance, banking, insurance, shipping and business dealings; and (2) deterring others from partnering with Iran—remain important objectives that can be furthered by employing financial tools.

While some question the wisdom of employing sanctions when the administration is actively seeking to pursue engagement with Iran, and others question the wisdom of employing sanctions that might give the regime a straw man and scapegoat to blame for all of Iran's ills, my own conclusion is just the opposite; this is exactly the time to use financial tools to build leverage for diplomacy.

With the hard-line regime so significantly delegitimized—to the point that both moderates and hardliners have overtly questioned decisions of Supreme Leader Ayatollah Ali Khamenei—the regime's ability to easily deflect criticism over the state of the Iranian economy or sanctions imposed over Iran's nuclear program has been significantly undermined. Indeed, the regime faces a far greater legitimacy crisis over its handling of the sham election, the Basij crackdown targeting Iranian citizens, the demonization of protestors by senior leaders, and the incarceration of protestors.

Given that Iran's nuclear program continues to progress, the one thing that is clear is that we do not have the luxury of time. The question is not whether or not to use sanctions, but what sanctions, targeting which entities, using which tools and authorities, and in what order?

To be sure, diplomatic engagement, directly with Iran or with others focused on Iran, whether broad or limited, is severely undermined when Iran is able to pursue its nuclear ambitions, support terrorist groups, and erode security in Iraq and Afghanistan without consequence. As *Washington Post* columnist David Ignatius put it, “[T]hese new, targeted financial measures are to traditional sanctions what Super Glue is to Elmer's Glue-All.” Periodically reassessing and adjusting the package of targeted financial measures is the tool most likely to create enough diplomatic leverage to avoid a military confrontation. Short of creating such leverage, negotiation and diplomacy alone will not convince Iran to abandon its nuclear program.

What sanctions should be employed?

First, we should actively seek international consensus on *multilateral sanctions* through the United Nations that would be ready to be implemented in the early fall should Iran fail to respond to the administration's offer of engagement by the deadline of the G-8 summit and the U.N. General Assembly that follows shortly thereafter. As important as the entities to be listed will be the unanimity of the decision to impose sanctions, so it is critical that the administration engage in robust diplomatic engagement with China and Russia now.

New multilateral designations should focus on entities engaged in illicit conduct in support of Iran's proliferation program, in particular those already designated unilaterally by the United States. For example:

- Bank Mellat. Bank Mellat was designated by the United States in October 2007 for providing banking services in support of U.N.-designated Iranian nuclear entities, namely the Atomic Energy Organization of Iran (AEOI) and Novin Energy Company. A multilateral designation would go far in constricting the activities of the banks foreign regional offices in South Korea, Armenia, and Turkey.
- Bank Melli. As FINCEN noted in a March 2008 advisory to the financial sector, "UNSCR 1803 calls on member states to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, and their branches and subsidiaries abroad. While Bank Melli and Bank Saderat were specifically noted, the United States urges all financial institutions to take into account the risk arising from the deficiencies in Iran's AML/CFT regime." Iran's largest bank, Bank Melli was also designated by the Treasury in October 2007 for providing banking services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the U.N. for their involvement in those programs. Following up on the warning included in UNSCR 1803 with outright designations of these banks would send a strong message.
- Khatam al-Anbya. The U.N. should also follow up on the U.S. and E.U. designations of the Khatam al-Anbya construction company (also called Ghorb), which is one of the most significant of the multiple entities owned or operated by the IRGC that have been designated by the United States. With the increased militarization of the Iranian regime, and the blatant abuses of the IRGC-affiliated Basij militia, now is the time to target IRGC affiliated entities.
- IRISL. The U.S. designation of Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL), in September 2008, was another key unilateral action that should be made multilateral. IRISL was designated for facilitating the transport of cargo for U.N. designated proliferators and for falsifying documents and using deceptive schemes to shroud its involvement in illicit commerce. And as the State Department noted at the time of the designation, IRISL had already been "called out by the U.N. Security Council as a company that has engaged in proliferation shipments."

Multilateral action, however, is not only difficult to achieve but can often lead to lowest common denominator decisionmaking. While international consensus is built for robust action at the United Nations, the United States should pursue both *unilateral and bilateral financial measures* (together with other States or regional bodies like the E.U.) focused on IRGC-affiliated and other individuals and institutions facilitating Iran's illicit conduct.

The United States should also actively *support the efforts of multilateral technocratic bodies* such as the Financial Action Task Force (FATF), which has issued a series of increasingly blunt warnings about doing business with Iran. The FATF is a 34 member technocratic body based in Paris which seeks to set global standards on combating money laundering and terrorism financing. The FATF has put out multiple warnings on Iran—the first in October 2007 and the most recent in February 2009. In these warnings, FATF instructed its members to urge their financial institutions to use "enhanced due diligence" when dealing with Iran. In the second warning, the FATF president also urged Iran to address the "shortcomings" in its anti-money laundering and terrorist financing regimes immediately. The most recent warning instructed countries to begin developing "countermeasures" to deal with Iran's illicit financial activities—an indication of how concerned the international body was with Iran's behavior in this arena. After one such warning, Iran sent a delegation to lobby FATF (of which it is not a member) but FATF dismissed the Iranian delegation's claims that legislative changes fixed the regime's shortcomings, calling the changes "skimpy" and noting their "big deficiencies."

Informal sanctions, what I describe as leveraging market forces, should be continued and expanded. As my colleague Michael Jacobson has also argued, the direct

outreach that Treasury has pursued with the international financial sector should be broadened to include other U.S. agencies and departments, notably the Commerce Department, engaging with a wider array of private sector actors in the insurance, shipping, and other industries. We should continue to think creatively about how to leverage our existing influence to achieve our goals. For example, coupled with additional action targeting IRISL, an effort to convince countries concerned about Iran's illicit and deceptive conduct to deny landing rights to Iran Air would further constrict Iran's ability to move funds and material for illicit purposes and isolate the regime internationally. Even in today's economy, and to a certain extent because of it, the private sector is very sensitive to reputational risk and is acutely aware of its due diligence and fiduciary obligations to its shareholders.

Less Targeted Financial Measures

Targeted financial measures have proven impressively effective at disrupting Iran's illicit conduct, but given the short timeframe and the rapid progress Iran is making on its nuclear program it may be time to consider more drastic and less targeted measures. Secretary Clinton has spoken about the possibility of inflicting "crippling sanctions" on Iran, and one particularly promising avenue to pursue would be to exploit Iran's continued reliance on foreign refined petroleum to meet its domestic consumption needs at home. Due to insufficient refining capacity at home, Iran must still re-import the 40 percent of its domestically consumed petroleum from refineries abroad. The prospect of targeting Iran's continued ability to re-import this refined petroleum back into the country could be a powerful tool targeting a regime soft spot. Consider as precedent the dramatic failure of the Iranian regime's gas ration card program in June 2007. The cards were loaded with a 6-months ration, but many Iranians reportedly used their entire ration within weeks. Indeed, Iran worries each winter about a possible heating fuel shortage and the consequence of not being able to provide the public with sufficient fuel subsidies.

Technology Arms Transfers

We should also focus our attention on developing a more systematic approach for dealing with Tehran's efforts to transfer technology and arms to radical allies in the Middle East and elsewhere, even as Washington seeks to engage Iran. Earlier this year, Cyprus impounded the Iranian-chartered freighter *Monchegorsk*, a vessel laden with war materiel bound for Syria (and perhaps beyond). The episode highlighted the shortcomings of current U.N. and European Union sanctions on Iran, and underscores the need to fill the gaps in the available policy tools to deal with Iranian arms transfers to its allies and surrogates. To close these gaps, the United States should work with its allies and the international community on a number of fronts:

- encourage the U.N. sanctions committee to issue a Security Council communique to the U.N. General Assembly, emphasizing the obligation of all member states, including Iran and Syria, to fully abide by the U.N. ban on arms transfers;
- work with the EU to expand its current policy banning the sale or transfer to Iran of "all arms and related material, as well as the provision of related assistance, investment and services" to include a ban on the purchase or transfer from Iran of the same;
- work with U.N. and EU member states to adopt legislation pertaining to Iranian arms and technology transfers, to enable them to fulfill their U.N. and EU obligations. Encourage regional organizations in South America and South and East Asia to adopt similar resolutions;
- work with the EU and Turkey (the *de facto* eastern gateway to Europe) to develop an enhanced customs and border security regime to prevent Iranian arms and technology transfers through Turkey;
- engage the private sector to draw attention to the risk of doing business with IRISL, its subsidiaries, and other banned entities. Given Iran's history of deceptive financial and trade activity, extra scrutiny should be given to any ship that has recently paid a call to an Iranian port;
- encourage countries to require ports and/or authorities to collect detailed, accurate, and complete data regarding all cargo being shipped to or through their countries (especially from risk-prone jurisdictions like Iran), to conduct rigorous risk assessments, and to proceed with actual inspections as necessary;
- encourage implementation of the World Customs Organization's (WCO) draft Framework of Standards to Secure and Facilitate Global Trade. The WCO represents 174 Customs administrations across the globe (including Iran) that col-

lectively process approximately 98 percent of world trade. Under the proposed framework, a risk management approach would be implemented for all cargo to identify high-risk shipments at the earliest possible time. Participating members would benefit from enhanced security and efficiency, and could benefit from lower insurance premiums.

There are signs of success, and with continuing signs of domestic discontent in Iran, targeted financial measures can increase the political pressure on the regime. Indeed, long before the June 12 elections, the U.S.-led campaign had played a role in causing domestic political problems for Iranian hard-liners as well. In September 2007, former president Akhbar Hasehemi Rafsanjani, a moderate opposed to the regime's confrontational approach, was elected as the speaker of the Experts Assembly—the body which chooses and has the power to remove Iran's Supreme Leader. Several days earlier, the Supreme Leader dismissed Yahya Rahim Safavi, the IRGC's commander since 1997, who was blacklisted by the U.N. in March 2007. Safavi's replacement, Muhammad Ali Jafari, confirmed that Safavi was removed primarily "due to the U.S. threats." Finally, Motjtaba Hashemi Samarah, one of Ahmadinejad's close allies, was removed from his position as the deputy interior minister. Iran's former chief nuclear negotiator, Hasan Rowhani, disparaged the country's growing international isolation and stated that economic sanctions were definitely impacting Iran. Despite high oil prices, he noted, "[W]e don't see a healthy and dynamic economy."

While there are a number of factors contributing to Iran's economic difficulties, including declining oil prices and President Ahmadinejad's mismanagement of economy policy, the response of international financial institutions to the Treasury Department's outreach has been a key reason as well. Many of the major global financial institutions—particularly those based in Europe—have either terminated or reduced their business with Iran. More surprisingly, it appears that banks in the United Arab Emirates and China are also beginning to exercise greater caution in their business dealings with Iran as well.

Conclusion

Even as it continues to pursue a nuclear program and other illicit activities, Iran today is financially and politically exposed. While sanctions are no panacea, if properly leveraged in tandem with other elements of national power, the pinch of targeted financial measures could potentially have a very significant impact.

PREPARED STATEMENT OF SUZANNE MALONEY

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BROOKINGS INSTITUTION

JULY 30, 2009

Mr. Chairman and members of the Committee, I'm very grateful for the opportunity to discuss recent developments in Iran and the policy tools available to the United States for tempering Tehran's nuclear and regional ambitions.

With turmoil on the streets and in the corridors of power, Iran's perennially unpredictable politics have moved into uncharted territory in the wake of the shameless manipulation of last month's Presidential elections. Unrest within Iran is hardly unprecedented; Iran has experienced ethnic rebellions, labor actions, student protests, economic riots, and a range of other political agitation with a surprising regularity over the past 30 years.

However, the current turbulence stands apart from any past instability within Iran in the scope of popular engagement and the severity of divisions among the political elite. As a result, the Islamic Republic today is now forced to contend with an almost unprecedented array of internal challenges, including the emergence of an embryonic opposition movement and profound fissures within the inner circles of power. The persistence of street skirmishes and passive resistance on the streets, the increasingly uneasy straddling of the broader array of conservative politicians, the mutiny against the supreme leader's unfettered authority by a quartet of veteran revolutionary leaders as well as senior clerics—all this clearly marks the opening salvos of a new phase of existential competition for power in Iran.

At this stage, it is beyond the capabilities of any external observer to predict precisely where, when and how Iran's current power struggle will end. In the immediate term, the Islamic Republic will likely survive this crisis with its governing system and leadership largely intact, thanks to the same tactics that have preserved it for the past 30 years: behind-the-scenes deals and mass repression. However, the regime's internal challenges have already intensified beyond what most analysts an-

anticipated a mere 6 weeks ago, and at some point the discord may begin to transcend Tehran's capacity to navigate.

Iran's Economy

Among the most important factors shaping both Iran's future trajectory and the tools available to the international community for influencing that course are those related to the Iranian economy. As even the most cursory review of the press coverage of Iran would suggest, its economy has experienced perennial problems of mismanagement that have been exacerbated by the ideological and interventionist approach of President Ahmadinejad. In the past 4 years, every meaningful economic indicator has suggested serious trouble for Iran—alarms that were sounded well before the global economic crisis. Iranians must contend with double-digit inflation, power shortages, a tumbling stock market, stubbornly high unemployment rates particularly among young people, increasing dependence on volatile resource revenues, and perhaps most ominously for Iran's leaders a rising tide of popular indignation spawned by individual hardship and the broader national predicament.

Ironically, Ahmadinejad owes his unlikely ascent from administrative obscurity to the pinnacle of power in Iran in part to his successful exploitation of Iranians' frustration with their living standards and economic opportunities. While Ahmadinejad's original 2005 election surely benefited from no small amount of electoral manipulation, his election was accepted as a credible outcome by many if not most Iranians because he waged an unexpectedly effective campaign. His messages emphasized the economic hardships and inequities that afflict the average Iranian, and he spoke bitterly about the indignities of Iran's grinding poverty and pointedly contrasted his lifestyle with that of his chief rival, the profiteering former president Akbar Hashemi Rafsanjani. Ultimately, Ahmadinejad's initial election reflected the frustrations of an electorate more concerned with jobs and the cost of living than with slick campaigns or implausible pledges of political change.

Despite this apparent mandate, however, Ahmadinejad governed on the basis of ideology rather than performance. As a result, the president himself bears much direct responsibility for the current state of Iran's economic affairs; his heavy-handed interference with monetary policy and freewheeling spending contributed to the spiraling inflation rates, and his provocative foreign policy and reprehensible rhetoric has done more to dissuade prospective investors than any U.S. or U.N. actions. His personal disdain for the technocracy and quixotic economic notions has undermined much of the progress that has been made in recent years to liberalize the Iranian economy and address its underlying distortions. The president has boasted of his instinctive grasp of economic policy, reveled in the reverberations of the global economic meltdown, and scoffed that his government could withstand even a drop in oil prices to a mere \$5 per barrel. And he spent—taking full advantage of an epic oil boom that reaped more than \$250 billion in his first three and a half years as president. Ahmadinejad traversed the country with his full cabinet in tow, and taking evident enjoyment from a paternalistic process of doling out funds large and small for picayune provincial projects and even individual appeals.

The senselessness of his policies has provoked an intensifying firestorm of criticism from across the political spectrum. At first the critiques were light-hearted. When he once boasted about the bargain price of tomatoes in his low-rent Tehran neighborhood, the president sparked a flurry of popular jokes at his expense and grumbling among the political elite. However, as the ripple effects of the global economic slowdown began to impact Iran and the price of oil crashed to less than one-third of its stratospheric 2008 high, the mood soured both among the regime's veteran personalities and its population at large. In three successive letters, panoply of the country's most respected economists detailed the dangers of the president's policies. Notably, the critiques were not limited to the president's factional adversaries; much of the disquiet voiced in recent years over the state of the economy emerged from sources ideologically inclined to support Ahmadinejad and his patron the supreme leader, including traditional conservatives with longstanding links to the powerful bazaar and the centers of clerical learning.

Thanks to his assiduous deployment of economic grievances during his original campaign and his copious and public spending throughout his first term, Ahmadinejad made himself particularly vulnerable to the regime's stumbling in this arena. What particularly galled so many Iranian political figures was the opportunity sacrificed by the malfeasance of the past few years. Iran's oil revenues under Ahmadinejad's first term exceeded 8 years' of income during both the Khatami and Rafsanjani presidencies; indeed of the more than \$700 billion that Iran has earned through oil exports in the past thirty years, nearly 40 percent came in during the past 4 years. Adding fuel to the fire was the lack of transparency over its allocation; having decimated the economic planning bureaucracy and attempted to classify the

details of the nation's oil reserve fund, Ahmadinejad left vast ambiguity as to the destination of tens of billions of dollars of his government's spending. The presumption is much of it has financed record consumption, with a disturbingly high import quotient, rather than creating jobs, attracting investors, or taking advantage of Iran's large, well-educated baby boom as it comes of age.

During the Presidential campaign, this particular issue and the state of the economy more broadly were hot-button issues for Ahmadinejad's opponents. Musavi, who had pressed for statist policies through his tenure as prime minister during the 1980s, embraced a relentlessly technocratic message centered on the incumbent's failure to manage the economy effectively. Musavi and his rivals pitched the economy as the primary issue in their attempt to connect with voters, equating economic grievances with threats to the country's security. As is his wont, Ahmadinejad was not cowed, and brandished shocking allegations of corruption and patronage as well as misleading statistics in the riveting televised campaign debates with each of his rivals.

The unrest of the past 6 weeks will only aggravate Iran's economic dilemmas and put durable solutions to the perpetual problems of uncontrollable subsidies, unaccountable spending that much further out of reach. The crisis will likely persuade more Iranians who have the means and/or ability to leave the country to do so, exacerbating the persistent problem of the brain drain and related capital flight. Even in advance of any multilateral action on sanctions, the political risks and generally unpalatable nature of the new power structure will dissuade some investors and reduce the competitiveness of Iran's external links. Should the political situation degenerate further, economic actions by the opposition such as strikes and mass boycotts could further paralyze the Iranian economy as a means of applying pressure to current decisionmakers.

However, one caveat regarding assumptions on the state of the Iranian economy: Particularly over the past 4 years, the media as well as policymakers have routinely speculated on the prospect for economic grievances to spark turmoil that might threaten the Islamic Republic. The longstanding distortions that plagued the Iranian economy have been greatly exacerbated by Ahmadinejad's spendthrift, interventionist policies, and in recent years Iranians have had to contend with double-digit inflation and unemployment rates. Analysts often pointed to small-scale labor actions as well as the short-lived protests against the gasoline rationing program, launched in 2007, and other poorly designed efforts to revamp the government's vast subsidies as the harbingers of mass unrest. They were repeatedly wrong on this count; Iranians grumbled and routinely vented their outrage over the economic conditions, but largely resigned themselves to making do.

Instead, what drove the Iranian people into the streets in record numbers and established the nascent stirrings of a popular opposition to the creeping totalitarianism of the Islamic Republic was a purely political issue—the brazen abrogation of their limited democratic rights. This should not imply that Iranians view their economic interests as somehow secondary to their political aspirations, but rather that three decades of Islamic rule have generated the conviction that Iran's representative institutions and its citizens' limited democratic rights represent the most effective tools for advancing their overall quality of life. With the brazen manipulation of the election, Iranians saw not simply the abrogation of their voice but the continuing hijacking of their nation's potential wealth and their individual opportunities for a better quality of life.

This reflects a remarkable transformation in the way that Iranians view their leadership; although Ahmadinejad, like Ayatollah Khomeini before him, prefers to emphasize the regime's ideological mandate, the population as well as much of the political elite have come to identify the responsibilities of their leaders as primarily oriented toward the provision of opportunities and a conducive environment for the nation's growth and development. Neither Ahmadinejad nor Khamenei can meet this test; their functioning frame of reference remains the fierce passions of religion and nationalism.

U.S. Policy

The events since the June 12th elections have changed Iran in profound and irreversible fashion, and it would be fruitless and even counterproductive to proceed as though this were not the case. The United States must adjust both its assumptions about Iran and its approach to dealing with our concerns about Iranian policies to address the hardening of its leadership, the narrowing of the regime's base of support, the broadening of popular alienation from the state, and the inevitability that further change will come to Iran, most likely in erratic and capricious fashion.

But the turmoil within Iran has not altered America's core interests *vis-a-vis* Iran, nor has it manifestly strengthened the case for alternatives to the Obama Adminis-

tration's stated policy of diplomacy. The worst of these prospective alternatives, military action, remains fraught with negative consequences for all of our interests across the region, including the revitalization of the peace process and the establishment of secure, independent states in Iraq and Afghanistan. Even as an option of last resort, military action would leave us and our allies in the Middle East markedly less secure and would likely strengthen rather than derail Iran's nuclear ambitions.

There may be some who see the past 6 weeks as a vindication for the prospects of regime change in Iran. This is precisely the wrong lesson to take from the recent unrest. Every element of the past 6 weeks of drama in Iran has been wholly internally generated, and even the whiff of any external orchestration or support would have doomed its prospects. Even today, with a burgeoning opposition movement, America's instruments and influence for effecting regime change are almost nonexistent.

As a result, I remain support the Obama Administration's continuing interest in utilizing direct diplomacy with Tehran to address the nuclear program and the broader array of concerns about Iranian policies. As profound as recent events have been in splintering the Iranian leadership and creating the seeds of an opposition movement, engagement remains the only path forward for Washington. Engagement will require an effort to negotiate with a particularly unpleasant and paranoid array of Iranian leaders. Still, the Administration's interest in diplomacy was never predicated on the palatability of the Iranian leadership—indeed, until very recently the conventional American wisdom tended to presume a second Ahmadinejad term—but on the urgency of the world's concerns and the even less promising prospects for the array of alternative U.S. policy options.

The upheaval in Iran does not inherently alter that calculus, but it does seem likely to exacerbate the potential pitfalls of implementing engagement. One of the lines floated by the administration—that the consolidation of power under Iranian hard-liners will create incentives for a quick resolution of the nuclear standoff—is certainly conceivable, but given Tehran's uncompromising rhetoric and resort to violence, it sound suspiciously like wishful thinking. More probable is the opposing scenario—that the United States is going to have to deal with an increasingly hard-line, suspicious Iranian regime, one that is preoccupied by a low-level popular insurgency and a schism among its longstanding power brokers.

Among American policymakers and citizens, sincere trepidations have emerged about the impact that any direct bilateral negotiations might have on the seemingly precarious stability of the Islamic regime and on the prospects and mood of the opposition. However, conducting the business of diplomacy does not confer an official American seal of approval on our interlocutors, as evidenced by our ongoing capability to maintain a formal dialog with a wide range of authoritarian leaders across the world.

To the contrary, the Iranian regime in fact derives its scant remaining legitimacy from its revolutionary ideology that remains steeped in anti-Americanism. If we can successfully draw Iran's current leadership into serious discussion about the urgent concerns for our own security interests, negotiations with Washington would only undercut Tehran's attempts to stoke revolutionary passions at home and rejectionist sentiment across the region. Negotiations could also play a powerful role in exacerbating the divisions within the regime and clarifying the prospective path forward available to Iranian leaders who are capable of compromise.

How can Washington draw an even more thuggish theocracy to the bargaining table? What incentives might possibly persuade a leadership that distrusts its own population to make meaningful concessions to its historical adversary? How can the international community structure an agreement so that the commitments of a regime that would invalidate its own institutions are in fact credible and durable? Finally, what mechanisms can be put in place to hedge against shifts in the Iranian power structure, an outcome that seems almost inevitable given the current volatility of the situation?

These hurdles are not insurmountable; the context for the successful 1980–81 diplomacy that led to the release of the American hostage was at least as challenging as that of today. Most of the tentative American relationships with the revolutionary regime had evaporated with the demise of Iran's Provisional Government, and instead U.S. negotiators faced an implacably anti-American array of Iranian interlocutors, whose authority, credibility, and interest in resolving the crisis remained an open question throughout the dialog. Moreover, Tehran's ultimate goals seemed unclear, possibly even unknown to its leadership, who often employed the negotiating process as a means of prolonging the crisis rather than resolving it.

A successful agreement to end the hostage crisis entailed months of intense work and many false starts, but a variety of tools—including secret negotiations and the

involvement of a third-party mediator and guarantor for the eventual agreement—helped facilitate an outcome that both sides abided by. There are no guarantees that the hard-won success of the negotiations that ended the hostage crisis can be replicated today; if anything, the stakes are higher and the Iranian political dynamics are less promising at least in the very short term.

Perhaps the critical factor in the success of the 1981 conclusion to hostage negotiations was the Iraqi invasion and Iran's desperate need for economic and diplomatic options to sustain the defense of the country. In a similar respect, any U.S. effort to negotiate with Tehran would benefit from the identification of incentives and counterincentives that can similarly focus the minds of leaders and expedite the path for negotiators.

In this respect, there is a direct and mutually reinforcing relationship between the act of engagement and the identification of potential sanctions to be applied by the international community if Iran chooses to persist with noncooperation. The threat of sanctions may be the only effective means of persuading Iran's increasingly hard-line leadership that their interests lie in restraining their nuclear ambitions and cooperating with their old adversary in Washington.

In addition, the offer and the act of dialog with Tehran represent the most important factors for creating a framework for long-term economic pressure if negotiations fail. The historical experience of prior U.S. administrations makes clear that international willingness to apply rigorous sanctions is inherently limited. The critical actors—Russia and China, as well as the Gulf states—have generally proven averse to steps that would severely constrain their economic interests and/or strategic relationships with Tehran. The minimum price for achieving their support for and participation in significantly intensified economic pressure will entail a serious American endeavor at direct diplomacy with the Islamic Republic.

Recognizing the currently hostile context for diplomacy, we should be coordinating our next steps as closely as possible with those states that can still bring greater political and economic pressure to bear on Tehran. In particular, we need to step up our dialog with Beijing, whose interests with respect to Iran diverge substantially from those of the Russians and whose investments in Iran reflect a long-run effort to secure prospective opportunities rather than a short-term calculus of maximizing profit.

Still, we should be careful to presume too much with respect to the efficacy of sanctions. The conventional wisdom in Washington appears to be shifting toward the need to identify “crippling” sanctions that can force Tehran to capitulate on enrichment. Unfortunately, this policy pronouncement overlooks the reality that Iran's multifaceted economy and, in particular, its petroleum exports offer a significant degree of insulation from sanctions. History has demonstrated that there simply are no silver bullets with respect to Iran.

While Tehran is certainly capable of change, economic pressures alone have only rarely generated substantive modifications to Iranian policy, particularly on issues that the leadership perceives as central to the security of the state and the perpetuation of the regime. In general, external pressure tends to encourage the coalescence of the regime and even consolidation of its public support, and past episodes of economic constraint have generated enhanced cooperation among Iran's bickering factions and greater preparedness to absorb the costs of perpetuating problematic policies.

Specifically, the debate within the Iranian leadership at the height of the war with Iraq during the mid-1980s offers an illuminating case in point. Tehran was confronted with mounting frustration with the increasing human, political, and financial toll of the war as well as a collapse in the oil markets which cut prices by half. Iran's prime minister at the time, Mir Husayn Musavi, had the thorny task of persuading its feuding parliament to pass an austerity budget, which entailed persuading traditionalists with ties to Iran's *bazaar* merchant community to accept new taxes and left-wing radicals to endorse cuts in state spending, particularly on social welfare. Musavi succeeded by presenting both factions with a choice—either accept the harsh budget measures or end the war. The regime's ideological commitment to the ‘sacred defense’ and the conviction, even among growing misgivings about war strategy, that this was an existential struggle meant that this was no choice at all; Iranian leaders undertook the painful political and economic steps that Musavi proposed.

Much has changed in Iran over the past two decades. The diminution of revolutionary fervor and the arguably less compelling public interest in the nuclear program would surely complicate any effort to persuade Iranians that economic deprivation is an acceptable price to pay for defending what the leadership has portrayed as its national right to technology. However, the global context differs as well; Iran today is not nearly as isolated as it was in the 1980s, the considerable economic op-

portunities offered by Europe and conceivably by the United States are no longer irreplaceable.

As a result, sanctions, while nominally successful in raising the costs to Tehran of its provocative policies, could fail in their ultimate goal of gaining Tehran's adherence to international nonproliferation norms and agreements. Equally importantly, the time horizon for sanctions to revise the calculus of the Iranian elite may be more protracted than the world is prepared to wait.

In retrospect, the rare cases where economic pressures have produced changes to Iranian security policies relate less to the actual financial cost to the Iranian leadership, which have ultimately proven manageable even during periods of low oil prices, than to the perceptions, timing, and utility in swaying critical constituencies within the Iranian political elite. Efforts to deter the import of refined gasoline are unlikely to have such an impact; they will be mitigated by Iran's porous borders, long history of smuggling petroleum products, and ongoing efforts to upgrade its refining capabilities. And to the extent that sanctions aimed at refined products penalize third-country governments and entities, trying to exploit Iran's gasoline vulnerability may cost more in terms of international influence than it is worth.

Finally and perhaps most importantly, any forward-looking U.S. policy needs sufficient dexterity to adjust to the inevitable changes that will buffet Iran over the forthcoming months. Iran is in a period of great flux, and there simply can be no certainty about the final outcome of the current dynamics. As events inside Iran shift toward either compromise or confrontation, Washington must be ready to respond accordingly.

PREPARED STATEMENT OF DANIELLE PLETKA

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Mr. Chairman, Members of the Committee, thank you for the opportunity to testify before you this morning on recent developments in Iran and future policy options for the United States. I am especially pleased to have the opportunity to comment on S. 908, the Iran Refined Petroleum Sanctions Act, and to commend Senators Bayh, Kyl and Lieberman (not to speak of the 66 other members) who have signed on in support of this important initiative.

During the course of last year's Presidential campaigns, the American public was treated to a singularly pointless debate about how to handle Iran's quest for nuclear weapons—a debate that centered on whether and under what conditions the United States should be “sitting down” with the regime in Tehran, as if somehow “sitting down” constituted a policy. In any case, the election was won by a candidate who embraced a markedly different approach to Iran than that of the outgoing Administration. And in our democratic system, the elected President can be expected to pursue the policies on which he campaigned.

For the first 7 months of this year, the Congress has been extraordinarily deferential to President Obama, and has been careful to do nothing that might undercut the prospects for success in the direct diplomacy with Iran that he has promised, such as mandating the imposition of new sanctions. And despite Iran's continued defiance of the United Nations Security Council's demand that it suspend its enrichment and other proliferation related activities, the U.N. has been equally reticent.

While the U.S. Congress and the diplomats in Turtle Bay have stood down, however, change has been in the air in Iran. And in keeping with the trends since the revolution in 1979, most of that change has been detrimental not only to American and allied interests, but also to the interests of the Iranian people.

On the nuclear front, Iran has continued its enrichment activities and now claims to have 7,000 centrifuges spinning at Natanz, an operational uranium conversion plant at Isfahan, and continuing operations at the heavy water facility at Arak. The IAEA reports that Iran remains uncooperative.

On the economic front, the Iranian Central Bank disclosed this week that inflation is at 22.5 percent. Unemployment, reported at 11.1 percent, is likely close to three times that amount. Gasoline shortages are common, as are electrical outages. Meanwhile, domestic production of basic goods continues to decline, and the Iranian press reports that meat prices go up on an hourly basis and that rice imports—a vital staple—have skyrocketed by 219 percent since March.

The silver lining in economic news for Iran is that trade—and with Europe in particular—which had suffered in earlier years, appears to be rebounding somewhat. But allow me to return to this topic a little bit later.

On the military and paramilitary fronts, Iran continues to refine its delivery systems, and in May tested a ballistic missile, the so-called Sajjil, a solid fuel rocket with a range of 2,000–2,500 kilometers. Iran continues to arms enemies of the United States inside Iraq, and has continued apace with its financial and military support for terrorist groups like Hezbollah and Hamas.

And finally, on the political front inside Iran, we are all well aware of the aftermath of the Iranian elections, the electoral fraud, the subsequent outpouring from the Iranian people and the brutal repression and murder of demonstrators by agents of the regime. Events still continue to play out inside Iran. Opponents and suspected opponents of the regime are still being arrested on a daily basis, though the Supreme Leader this week ordered the closure of a particularly infamous illegal detention facility in response to a public outcry.

Even the closest of Iran watchers are unsure of what's next inside Iran. Some have suggested that once out of the bottle, the genie of public unrest cannot be stuffed back in again. While that may be true in some cases, history suggests that after historic revolutionary events like the Hungarian uprising, the Prague Spring, and the Tiananmen uprising, it is actually possible to strangle the genie. In addition, many have failed to take into account the dramatic transformation of the Iranian political scene—a transformation that diminishes the odds of any successful reformist movement and carries critical consequences for our own nuclear diplomacy.

For some years now, the Iranian Revolutionary Guard Corps has quietly and systematically taken over the reins of power inside Iran. There have been creeping signs of this transformation for several years—the takeover of the Tehran airport by the IRGC in 2004, followed by their takeover of the country's mobile phone operations. But increasingly, with the full backing of the Ahmadinejad government—and apparently of the Supreme Leader—the IRGC has come to dominate all sectors of Iranian life, including the economy, the military and domestic politics. On the economic side, what that ultimately means for countries and companies is that if you are doing business in Iran, you are probably doing business with the IRGC.

More importantly, however, the IRGC today is not just the exporter of the Revolution and the protector of the regime. The IRGC has become the regime. The clerics so hated by the Iranian public—for their repression, their corruption, and their incompetence—are all but gone from the Iranian political scene. Ahmadinejad purged the last cleric from his cabinet this weekend, Intelligence Minister Hojjat al-Eslam Gholam-Hossein Ezheh-I.

What does this mean for the Iranian nuclear weapons program, for the Obama administration's hopes of engagement, and for the Iranian people themselves? It's hard to find any good news. Engagement with the new breed of Iranian leader will likely resemble engagement with the previous breed of Iranian leader, but without the trappings or finesse. IRGC veterans have little appreciation for the diplomatic minuets so enjoyed by previous presidents Rafsanjani and Khatami. Indeed, these veterans of the Iran-Iraq war, many younger and brought up entirely under the Islamic Republic, publicly scorn the value of trade, free markets, or relations with Europe and the United States.

It is always possible that the regime has a surprise in store for us—and the Iranian Foreign Ministry reports they soon will offer a package aimed at assuaging the “economic, cultural and moral crises” of the world. Some optimists here in the United States and in Berlin, Paris and London have persuaded themselves that it is only the hardliners in Iran that can successfully deliver a credible deal to the Europeans and the Americans—something on the Nixon-China, Sharon-Gaza scenario. This optimism ignores every statement made by the government's own ministers, spokesmen and supporters, but time will tell.

Meanwhile, however, the regime continues to progress toward a nuclear weapons capability. The unclenched fist offered by the Obama administration has been rebuffed, and no serious response has been proffered to repeated invitations. Iran chose not to join the G8 meeting despite an offer from Secretary of State Clinton. Indeed, the regime explicitly attempted to embarrass Obama by leaking the President's personal and private letter to Supreme Leader Khamenei to an American newspaper.

The time has come to reassess the value of the current U.S. policies. But let's be clear—this should not be a repudiation of engagement (though I myself doubt its merits), but an acceptance of the reality that the free pass engagement on offer by the Obama administration has bought little more than time for Iran to install more centrifuges. Speaking softly in the absence of a big stick—our approach for the past 6 months—will not bring the current Iranian leadership into serious negotiations, nor will it stop them from their pursuit of nuclear weapons.

In part because of our silence, the decline in trade between Iran and certain countries of the European Union—now Iran's second largest trading partner after

China—has begun to reverse itself. Germany and Italy are among the worst offenders, though Germany deserves particular censure because of its place at the table in the all-important EU-3+3 talks with Iran. The Wall Street Journal reported last October that the “German-Iranian Chamber of Industry and Trade counts about 2,000 members, including such big names as Siemens and BASF [about which more later]. In the first 7 months of [2008], Germany’s Federal Office of Economics and Export Control approved 1,926 business deals with Iran—an increase of 63 percent over last year. During that same period, German exports to Iran rose 14.1 percent. For the record, French exports went up 21 percent during the first 6 months of [2008], but they are still worth less than half of Germany’s €2.2 billion of exports. Britain’s exports to Tehran, only a fraction of Germany’s trade with Iran, fell 20 percent.”

More troublingly, the increases in trade with Europe have been dwarfed by the explosion in Iran-China trade. There are deep and wide economic ties between the two, and AEI’s Iran Tracker project (*IranTracker.org*) reports that more than 100 Chinese state companies operate in Iran, with bilateral trade reaching over \$27 billion in 2008, a 35 percent increase over 2007. Our report goes on to detail, among other transactions:

- A 2008 China National Petroleum Corporation (CNPC)—National Iranian Oil Company (NIOC) \$1.76 billion deal to develop Iran’s North Azadegan oil field.
- In March 2009, a \$3.2 billion gas deal, in which China’s LNG and a Chinese-led consortium will build a line to transport liquid Iranian gas from the South Pars Gas Field.
- In June 2009, a \$5 billion Iran-Chinese National Petroleum Corporation gas deal to develop Iran’s South Pars Gas field.

Despite the growing movement for divestment from state sponsors of terrorism, including Iran, global business transactions with Iran continue to flourish. Our Iran Interactive data base, which should be back online at *IranTracker.org* shortly, details 75 major transactions in the last 2 years, most in the oil and gas or construction and engineering sector, with value in the hundreds of millions, including companies ranging from France’s Renault and Peugeot to Germany’s Krupp and Siemens, Toyota, Royal Dutch Shell, Gazprom, Hyundai, Spain’s Repsol and many more.

Among the more appalling stories, however, is German-Finnish telecom giant Nokia-Siemens delivery of surveillance equipment to Irantelecom—surveillance equipment surely used to suppress and arrest opponents of the regime. Nokia and Siemens both do business with the U.S. Government, and Siemens was the leading contender to receive a contract with possible value in the hundreds of millions to replace rail cars in Los Angeles, a contract that is rightly now at risk.

Perhaps more important than the moral and financial suasion of divestment, however, is the tool that has yet to be used by the international community to persuade Tehran of the wisdom of coming to the table: restrictions on the export to Iran of refined petroleum products and equipment to enhance Iran’s own refinery capacity. S. 908 affords the President that opportunity; it doesn’t force it on him, which may be an option another Congress will feel compelled to consider. But as a supermajority of the Senate and many in the House of Representatives (who support Congressman Berman’s companion bill) have made clear, only the “sword of Damocles” (to use Chairman Berman’s phrase) of punitive sanctions will impel the Iranian regime to take seriously the many, many deadlines and redlines announced by the international community.

Iran, as many can detail more persuasively than I, is heavily dependent on imported refined petroleum. Domestic capacity is limited, and while the Ahmadinejad government has identified that weakness and is working to remedy it, it remains a significant regime weakness nonetheless. Using this pressure point quickly and decisively will do more to convince the Tehran government of the world’s seriousness than any number of videograms, letters, Hallmark cards or goodwill visits. This is the language they speak, and we must begin to grasp that fact.

Iranian refining capacity, imports and shipping are concentrated in fairly few hands. News reports indicate that supplies come largely from two Swiss firms, Vitol and Trafigura with others from India’s Reliance (which has announced it is suspending such shipments—a claim thus far unconfirmed), Shell, BP, France’s Total and Swiss trader Glencore.

Then there are the insurers without which these shipments would halt, reportedly including Lloyd’s of London, Munich Re of Germany, Steamship Mutual Underwriting Association and the North of England P & I Association of the United Kingdom. Indeed, insurers should already be on the highest alert in light of the January

interception of the Islamic Republic of Iran Shipping Lines (IRISL) chartered Monchegorsk, stopped at Cyprus carrying weaponry destined for Syria—and most likely to Hezbollah. (IRISL and its affiliates are already under U.S. sanction, and will likely also be sanctioned by the U.N. Security Council this year.)

Companies helping Iran gain refining independence (which could be subject to sanction under S. 908) include the British Universal Oil Products (a subsidiary of U.S.-based Honeywell), Axens and Technip of France, Sinopec of China, Hyundai of South Korea and Aker Kvaerner Powergas of Norway.

Mr. Chairman, even proponents of sanctions recognize they are a blunt tool. Too often, sanctions impact those least likely to be able to change policies. They are not a silver bullet, and they may not deliver an end to the Iranian nuclear program. But we are on a tight timeline. Iran will soon have a weapon that will doubtless preclude any desire on their part to negotiate.

Some, including some at this table and their allies inside the Administration, will argue that sanctions will have the opposite effect . . . that Iran will not respond well to any pressure, and will be driven away from negotiations. Others will argue that only by slow-rolling our sanctions effort will we be able to persuade the world of our bona fides and bring them along in the most effective form of persuasion—multilateral sanctions.

These arguments have little basis in history, and even less likelihood of getting us to a successful outcome with Iran. Who here believes that the reason that China and Russia have been reluctant to support tougher sanctions is because they doubt America's good faith?

This week, Secretary Gates suggested that “if the engagement process is not successful, the United States is prepared to press for significant additional sanctions that would be non-incremental.” The Secretary is absolutely right that the drip drip of incremental sanctions will not answer the mail. But he posits a false choice for the administration and our allies. In truth, the choice is not between engagement and sanctions. Rather, it is only by applying the toughest possible sanctions that we stand any chance of persuading Iran's leaders to consider serious negotiations with the international community.

It's time to give the President the tools he needs to do what is necessary to force a choice inside the halls of power in Tehran. Right now there is no choice to be made; the status quo with the rest of the world is working out nicely for the regime.

I would like to say that we can rely on the Iranian people to deliver a better government, and one that serves their needs as much as the needs of the international community. But I don't think such a change is on the cards in the timeframe we need. That should be the topic of another hearing, and other legislative efforts. The courageous people of Iran deserve our support. In the meantime, however, the United States needs to do more to defend its own national security and that of our allies. I believe this Committee can provide much needed help, and that S. 908 is an important and useful way to move forward.

Thank you.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN DODD
FROM NICHOLAS BURNS**

Q.1. You describe “military containment” as an option the Obama Administration should consider once diplomacy and additional sanctions have run their course. Would you please elaborate on what you envision containment to mean? How is such a posture different from current conditions?

A.1. If negotiations and sanctions do not succeed in convincing Iran to cease its nuclear research efforts, the United States will most likely be left with the choice of either accepting, in effect, Iran’s nuclear capability or trying to stop it through the use of military force. The United States cannot be passive and do nothing given the grave threat a nuclear-armed Iran would pose for the United States, Israel and our Arab partners. But, I also believe that the early use of force by the United States or others against Iran in the next year would also be unwise. I believe the United States should consider instead a series of security and economic measures to contain Iranian power in the Middle East, including a stronger U.S. military presence in the Gulf and security guarantees for Israel and some Arab partners in case Iran should threaten them with force. In addition, the United States and others could threaten much tougher sanctions, including on Iran’s energy sector. Such an effort to contain the Iranian government would, by definition, include stronger efforts than are currently in place. The United States and its allies contained the Soviet and Chinese threats during the cold war. We should look at a similar containment regime against Iran as an alternative to war.

Q.2. You have noted that Iran’s foes lie not only in the East but also along its borders. Indeed, many Arab countries remain concerned about Iran’s intentions and destabilizing ambitions. How can the United States and its European allies enlist Arab countries more effectively in their fight to isolate Iran economically and diplomatically? How can the United States embolden Arab states in the region to apply more local pressure and deflect criticism that this is merely “Western Aggression”?

A.2. Most of the Arab governments are deeply suspicious of the Ahmadinejad government in Iran. The United States can do more to help augment their defenses against future Iranian aggression and to enhance U.S. military cooperation in the Gulf region. Such a step would be a fundamental building block in any future containment regime. Many of the Arab governments, however, have been insufficiently active in the sanctions against Iran. They should make a much greater effort to join in the international pressure on Iran to give up its nuclear ambitions.

Q.3. What role should China and Russia play in fashioning our multilateral Iran policies?

A.3. Russia and China are partners with the United States in the international effort to convince Iran to join negotiations over its nuclear weapons future. Frankly, neither of them have been consistently strong supporters of that strategy. Despite the fact that they voted for the three United Nations sanctions resolutions from 2006–2008, they have both acted to decrease, rather than increase,

international pressure on Iran. Russia continues to sell arms to Iran. China has become the leading trade partner of Iran. If the United States makes a good faith effort to negotiate with Iran and those talks fail, then China and Russia should commit to stronger sanctions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JOHANNIS
FROM NICHOLAS BURNS**

Q.1. Why will the Administration's current policy of direct engagement with Iran change Russia and China's judgment that their national interest lies in opposing strong U.N. Security Council economic sanctions resolutions?

A.1. I do not know whether China and Russia will contribute effectively to the international effort to pressure Iran. Their immediate past record in this respect is weak. The Administration's plan to negotiate with Iran makes sense, in my judgment, because it will strengthen U.S. credibility internationally to argue for tougher sanctions should negotiations fail. Should Russia and China balk at stronger sanctions, it would give the United States greater standing to consider even tougher measures, such as containment or the use of force.

Q.2. Do China and Russia fundamentally want to resolve the Iranian nuclear issue in such a way that Iran does not control a close nuclear fuel cycle?

A.2. China and Russia both state that they do not wish Iran to possess a nuclear weapons capability. But, neither of them have worked to pressure Iran sufficiently to give up its nuclear ambitions.

Q.3. What should a realistic "red line" be for the United States? And, do you think our red line is the same as that of the Europeans or the Israelis? If not, what should theirs be?

A.3. I believe both President Bush and President Obama have been correct to assert that the United States will not tolerate Iran as a nuclear weapons power. Both have tried to marshal U.S. and international pressure against Iran.

Q.4. You have spent a great deal of time at very high levels in the U.S. Government working on this very issue. If you were in a similar position in the Israeli government, what policy recommendations would you be giving to the Israeli leadership?

A.4. I believe Israel faces a clear threat from a nuclear-armed Iran. That is why, in my opinion, the United States should continue to extend substantial military support to Israel. But, I also believe it would be a mistake for Israel to use military force against Iran. Such a step would likely prove ineffective and unleash counter attacks on Israel with the possibility of a wider war in the region. I think it is more effective now for Israel to support President Obama's strategy of engagement backed up by sanctions.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN DODD
FROM MATTHEW LEVITT**

Q.1. The Government Accountability Office previously found that enterprising Iranians may circumvent our current trade embargo by acquiring U.S. technology re-exported through various other countries. And renowned scientists such as Institute for Science and International Studies President David Albright have indicated that in fact black-market proliferation networks are thriving, using such methods.

Please discuss your understanding of this situation.

Are there any particular countries that the United States should engage to improve cooperation in countering such “diversion?”

A.1. Earlier this year, Cyprus impounded the Iranian-chartered freighter *Monchegorsk*, a vessel laden with war materiel bound for Syria (and perhaps beyond). This episode highlights the shortcomings of current U.N. and European Union sanctions on Iran, and underscores the need for a more systematic approach for dealing with Tehran’s efforts to transfer technology and arms to radical allies in the Middle East and elsewhere, even as Washington seeks to engage Iran.

The *Monchegorsk* and its Cargo

In January, the U.S. Navy stopped *Monchegorsk* while it was transiting the Red Sea en route to Syria, on the basis of intelligence that the freighter was carrying Iranian arms exports in violation of U.N. Security Council Resolution 1747. According to U.N. documents, the *Monchegorsk*, a Russian-owned, Cypriot-flagged vessel, was chartered by Islamic Republic of Iran Shipping Lines (IRISL). In September 2008, the Treasury Department designated IRISL for its proliferation activities, stating that “Not only does IRISL facilitate the transport of cargo for U.N. designated proliferators, it also falsifies documents and uses deceptive schemes to shroud its involvement in illicit commerce.”

A U.S. Navy boarding party confirmed the arms embargo suspicions and ordered the ship to Cyprus. There, according to the *Wall Street Journal*, the Cypriot authorities found components for mortars and thousands of cases of powder, propellant, and shell casings for 125mm and 130mm guns. The cargo was then unloaded and impounded by Cypriot authorities.

U.S. and Cypriot authorities acted upon the legal guidelines set forth by a series of EU and U.N. resolutions pertaining to Iran. In February and April 2007, the EU imposed a number of sanctions on Iran in order to implement U.N. Security Council decisions, including a ban on Iranian transfers of military materiel, arms, and missile technology. Similarly, Resolution 1747, adopted in March 2007, prohibited the transfer of “any arms or related materiel” by Iran, and urged U.N. member states not to facilitate such efforts. In addition, Resolution 1803, passed in March 2008, calls upon all states, “in accordance with their national legal authorities and legislation and consistent with international law,” to inspect IRISL cargoes to and from Iran transiting their airports and seaports, “provided there are reasonable grounds to believe that the aircraft or vessel is transporting [prohibited] goods.”

Not a New Problem

Problems relating to interdicting destabilizing technology and arms transfers on the high seas, or those proscribed by U.N. resolutions, are not new. In October 1991, the North Korean freighter *Mupo*, carrying Scud missiles and related equipment to Syria, returned to North Korea after Egypt denied it transit through the Suez Canal amid concerns that Israel might try to interdict the shipment. The cargo was subsequently delivered to Iran in March 1992 by North Korean freighters *Dae Hung Ho* and *Dae Hung Dan*, which were shadowed by U.S. Navy vessels during the transit. (The navy was unable to stop the transfers because they were not illegal under international law.) The shipments are believed to have subsequently been flown to Syria.

In August 1993, the Chinese freighter *Yinhe*, which was believed to be carrying chemical warfare agent precursors bound for Iran, was forced to dock in Saudi Arabia, but was found not to be carrying any banned items. And in December 2002, a North Korean freighter carrying Scud missiles believed to be for Iraq was stopped and inspected by Spanish warships, but was set free when it turned out that the Scuds were intended for Yemen.

These episodes demonstrate the need to ensure that efforts to interdict destabilizing or proscribed shipments are backed up by reliable intelligence and appropriate legal authorities, and highlight the risks of acting without one or the other.

Iran Arming U.S. Foes

A number of similar incidents in recent years have involved Iranian efforts to transport military materiel and arms by sea, land, and air to allies and surrogates. During the second Palestinian intifada, Iran helped facilitate arms shipments to Gaza through Hizballah and the Popular Front for the Liberation of Palestine to Gaza (by means of floating waterproof containers) by using two civilian vessels, the *Santorini*, seized by Israel in May 2001, and the *Calypso 2*. In December 2001, Iran attempted to deliver fifty tons of weapons to the Palestinian Authority aboard the *Karine A*, whose shipment was seized by the Israeli Navy in the Red Sea.

During the 2006 Hizballah-Israel war, Israeli intelligence claimed that Iran was resupplying the Shiite movement via Turkey. Such claims gained credibility in May 2007, when a train derailed by PKK terrorists in southeastern Turkey was found to be carrying undeclared Iranian rockets and small arms destined for Syria—probably for transshipment to Hizballah.

More recently, Iran has emerged as a major arms supplier for Hamas in Gaza, as well as for anti-American governments in South America. In January and February 2009, the Israeli Air Force bombed two vehicle convoys reportedly carrying Iranian arms destined for Hamas fighters in Gaza. (There are also reports that the Israeli Navy sunk an Iranian ship carrying arms for Hamas off the coast of Sudan at this time.) Also in January 2009, Turkish customs officials in the port of Mersin discovered a shipment with equipment capable of producing explosives. The shipment, which originated in Iran, had entered Turkey by truck and was destined for Venezuela.

These recent episodes underscore Iran's growing emergence as a supplier of military materiel, equipment, and arms for radical Islamist and anti-American allies and surrogates in the Middle East and beyond. For that reason, it is increasingly important to establish a comprehensive regime to constrain Iran's ability to transfer military materiel and arms to its allies and surrogates by sea, land, and air, especially if Iran were to market its nuclear technology abroad.

Enhancing Leverage over Tehran

These past incidents indicate that intelligence must be timely and reliable to avoid embarrassing incidents that undermine U.S. credibility. They also highlight the gaps in the available policy tools to deal with Iranian arms transfers to its allies and surrogates. To close these gaps, the United States should work with its allies and the international community to:

- encourage the U.N. sanctions committee to issue a Security Council communique to the U.N. General Assembly, emphasizing the obligation of all member states, including Iran and Syria, to fully abide by the U.N. ban on arms transfers;
- work with the EU to expand its current policy banning the sale or transfer to Iran of "all arms and related material, as well as the provision of related assistance, investment and services" to include a ban on the purchase or transfer from Iran of the same;
- work with U.N. and EU member states to adopt legislation pertaining to Iranian arms and technology transfers, to enable them to fulfill their U.N. and EU obligations. Encourage regional organizations in South America and South and East Asia to adopt similar resolutions;
- work with the EU and Turkey (the *de facto* eastern gateway to Europe) to develop an enhanced customs and border security regime to prevent Iranian arms and technology transfers through Turkey;
- engage the private sector to draw attention to the risk of doing business with IRISL, its subsidiaries, and other banned entities. As the U.S. Treasury noted when it designated IRISL: "Countries and firms, including customers, business partners, and maritime insurers doing business with IRISL, may be unwittingly helping the shipping line facilitate Iran's proliferation activities." Indeed, given Iran's history of deceptive financial and trade activity, extra scrutiny should be given to any ship that has recently paid a call to an Iranian port;
- encourage countries to require ports and/or authorities to collect detailed, accurate, and complete data regarding all cargo being shipped to or through their countries (especially from risk-prone jurisdictions like Iran), to conduct rigorous risk assessments, and to proceed with actual inspections as necessary;
- encourage implementation of the World Customs Organization's (WCO) draft *Framework of Standards to Secure and Facilitate Global Trade*. The WCO represents 174 Customs administrations across the globe (including Iran) that collectively

process approximately 98 percent of world trade. Under the proposed framework, a risk management approach would be implemented for all cargo to identify high-risk shipments at the earliest possible time. Participating members would benefit from enhanced security and efficiency, and could benefit from lower insurance premiums.

Export Control: Areas for Improvement

As my colleague Michael Jacobson has noted, Iran has been able to circumvent the various U.S. sanctions regimes by using third-party countries as reexport hubs. Since the UAE has started to crack down on this type of trade, new countries have emerged as safe havens, with Malaysia at the top of the list. Malaysia and Iran have taken steps recently to build closer ties on many fronts including trade, and in December 2008, Malaysian prime minister Abdullah Ahmad Badawi traveled to Tehran, culminating in agreements to further cooperation in technology and automotive manufacturing. While in Iran, Badawi called on the Malaysia-Iran Joint Trade Committee to bolster both the volume and breadth of trade between the two countries.

Hong Kong is also becoming more of a problem in this area, with Iranian front companies and procurement agents setting up shop there. Hong Kong is an attractive reexport location for Iran in part because of the 1992 U.S.-Hong Kong Policy Act, which dictates that Hong Kong be treated differently than the rest of China when it comes to export control issues. As a result, most items that can be shipped to the United Kingdom can also be sent to Hong Kong, despite the fact that many of these goods could not be shipped to mainland China. The Chinese government has also been stepping in to protect Iranians targeted by U.S. enforcement efforts. Hong Kong, for example, arrested Iranian procurement agent Yousef Boushvark in 2007 at America's request for attempting to acquire F-14 fighter plane parts, but Chinese authorities denied a subsequent U.S. extradition request, and Boushvark was then released from custody.

Although the main challenge for U.S. export control efforts is on the international front, problems closer to home exist as well:

- Despite the presence of a national export control coordinator, no agency is officially in charge of U.S. Government export control efforts, with responsibility spread between State, Justice, Treasury, Commerce, and DHS;
- The main statute governing this issue—the Export Administration Act (EAA)—has expired, forcing the United States to temporarily operate under the International Emergency Economic Powers Act, which does not allow for the full set of tools that the EAA provided;
- Sentences in export control cases are often light, in part because judges do not always view them as serious national security issues. Adding to this prevalent perception is the fact that export control offenses are not in Title 18 of the U.S. Code, where the vast majority of crimes are found.

**RESPONSE TO WRITTEN QUESTION OF SENATOR JOHANNIS
FROM MATTHEW LEVITT**

Q.1. What should a realistic “red-line” for the United States be? And do you think our red-line is the same as those of the Europeans or the Israelis? If not, what should theirs be?

A.1. As a blue ribbon Washington Institute task force argued in its report, “Preventing A Cascade of Instability,” now is the time for the United States to promote a policy of “resist and deter” rather than “acquiesce and deter” within the international community. Assertive action now to build U.S. leverage is more likely to prevent Iran’s emergence as a military nuclear power. But time is short if diplomatic engagement is to have a chance of success and military confrontation avoided. Iran continues to produce enriched uranium, of which it already has a sufficient amount—if processed further—for a bomb.

The Middle East is looking for strong U.S. leadership and reenergized relationships. Vigorous steps to bolster regional defense cooperation could enhance stability and serve to check regional perceptions that U.S. influence is weakening. As part of the solution to the impasse, Washington could propose measures that would also serve to shore up the global nonproliferation system.

**RESPONSE TO WRITTEN QUESTION OF CHAIRMAN DODD
FROM SUZANNE MALONEY**

Q.1. Dr. Maloney, what is the current state of Iran’s civil society, and what role is the Opposition currently playing in the wake of the crackdown? Do you consider opposition to the current Iranian regime to be broad-based? What potential does the Iranian middle class have to empower such opposition, and in what ways do you think it might do this going forward? What are the key indicators of the status of Opposition forces or that you think policymakers ought to be looking for in the coming months?

A.1. Despite the repression of the current regime, Iran has always boasted a relatively vibrant civil society. Associational life was and largely remains in some way interconnected with the state, but until recently much of this sector of society operated with a considerable degree of autonomy from the government. Over the past 30 years, Iranians have developed a wide range of institutions and mechanisms for insulating civil society from the intrusions of the regime. Although student organizations, cultural groups, and other institutions of Iran’s civil society have undoubtedly borne the brunt of the post-election crackdown, I would venture that the resilience of the Iranian people and Iranian society generally will prevail even during this difficult period.

As to the scope of the opposition to the regime, it is difficult to say with any degree of certainty. For many years, anecdotal evidence has suggested widespread dissatisfaction with the government’s performance on quality of life issues and, at a more profound level, with the system of government that endows absolute authority in an unaccountable, unelected leader. And it is clear that Iranians from a very wide range of socioeconomic, geographic, and ethnic identifications participated in the demonstrations to protest the manipulation of the June Presidential elections. So

there is a deep well of popular frustration with the government which, for the first time since the revolution, was mobilized in public on a mass scale in opposition to the regime's policies. What remains unknown and perhaps unknowable to those of us outside Iran is how many of the participants in the June demonstrations are ready and willing to actively confront the system as a whole. Certainly the recent recurrence of opposition protests suggests that deep resentment remains among many Iranians that will continue to undermine the government's attempts to impose its will on society.

As one of my colleagues at the Brookings Institution, Djavad Salehi-Isfahani, has written, Iran today has a large and growing middle class. Ironically this is one of the factors that has helped stabilize Iran over many years; the expansion of infrastructure and education since the revolution combined with the influx of epic oil revenues over much of the past decade helped to create a broad sense of investment in the future among many Iranians. However, this same middle class is interested in greater economic opportunities, more interaction with the world, and a stronger voice in the nation's future course. The rigging of the June election likely deepened their alienation from Ahmadinejad and from the Islamic Republic overall.

In terms of how Iran and the opposition will evolve, key indicators include the following: the size, scope and frequency of anti-government demonstrations; the politics within the ranks of the senior clerical establishment; the level of rancor within the conservative establishment, many of whom are almost as alienated from President Ahmadinejad as reformists; the posture of influential second-generation political actors, many of whom have remained loyal to the system even as they endeavor to court the frustrated masses; the level of capital flight, inflation, job creation and the government's willingness and ability to undertake significant economic reforms as currently considered; any shifts in the apparent cohesion of the security forces; and the relationship between the executive branch and other state institutions, including the Supreme National Security Council.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JOHANNS
FROM SUZANNE MALONEY**

Q.1. Why will the Administration's current policy of direct engagement with Iran change Russia and China's judgment that their national interest lies in opposing strong U.N. Security Council economic sanctions resolutions?

Q.2. Do China and Russia fundamentally want to resolve the Iranian nuclear issue in such a way that Iran does not control a closed nuclear fuel cycle?

Q.3. What should a realistic "red-line" for the United States be? And do you think our red-line is the same as those of the Europeans or the Israelis? If not, what should theirs be?

A.1.-A.3. The decision by the Obama Administration to engage directly with Iran will not, on its own, decisively alter the reluctance of China and Russia to embrace robust sanctions against Iran. The

Chinese and Russian leaderships have made clear that they do not want to see Iran cross the nuclear threshold, but their distaste for tough economic pressure reflects both their continuing interest in preserving a mutually beneficial economic relationship with Tehran and the less urgent sense of threat they appear to perceive from Iran's continuing defiance of United Nations Security Council resolutions. Nor has the Obama Administration embraced diplomacy for the sole or primary purpose of persuading international fence-sitters; based on the president's clear and consistent rhetoric, the Administration made the calculation that diplomacy represented the best possible policy, among an array of unappealing alternatives, for influencing Iran's nuclear calculus.

However, American engagement in the diplomatic process is a necessary condition for beginning to alter the Chinese and Russian reluctance on sanctions, and for building a credible case that other means of persuading Tehran have not worked.

I cannot speak for any other government, but our own priority should be developing a robust set of safeguards that can provide the international community with maximum confidence that Iran's program will not be utilized for military purposes.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JOHANNIS
FROM DANIELLE PLETKA**

Q.1. Do China and Russia fundamentally want to resolve the Iranian nuclear issue in such a way that Iran does not control a closed nuclear fuel cycle?

Q.2. What should a realistic "red-line" for the United States be? And do you think our red-line is the same as those of the Europeans or the Israelis? If not, what should theirs be?

A.1.-A.2. While it would be nice to "know" with certainty what Russia and China's true intentions are vis a vis Iran, we can only interpret each's statements and actions to make informed inferences. And while both Moscow and Beijing have criticized Iran's lack of cooperation with the IAEA and made occasional statements suggesting sanctions could be inevitable, neither Russia nor China has indicated support for new sanctions despite the fact that Tehran has missed repeated deadlines to accept an offer to enrich uranium outside Iran.

So many red lines have passed already, for both Israel and the United States, that etching new lines in the sand seems futile. Iran has progressed to the point that it is mere months away from a nuclear weapons capability. Technical glitches are just that, glitches. The Europeans and Israelis are now in the position of having a more robust Iran policy than the United States. The point is not for all of us to embrace exactly the same policies, but for us all to ensure that Iran is unable to divide us and play one off against the other.