

IRANIAN NUCLEAR CRISIS: LATEST DEVELOPMENTS AND NEXT STEPS

JOINT HEARING

BEFORE THE
SUBCOMMITTEE ON TERRORISM,
NONPROLIFERATION, AND TRADE
AND THE
SUBCOMMITTEE ON
THE MIDDLE EAST AND SOUTH ASIA
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IRANIAN NUCLEAR CRISIS: LATEST DEVELOPMENTS AND NEXT STEPS

THURSDAY, MARCH 15, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION,
AND TRADE, AND
SUBCOMMITTEE ON THE MIDDLE EAST
AND SOUTH ASIA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittees met, pursuant to notice, at 1:10 p.m. in room 2172, Rayburn House Office Building, Hon. Brad Sherman (chairman of the Subcommittee on Terrorism, Nonproliferation, and Trade) presiding.

Mr. SHERMAN. Okay, if folks could sit down, turn off the cell phones, and I guess I am supposed to do that. I am new to this whole chairmanship thing; I learned under the tutelage of Mr. Royce, the gentleman from California. And one thing I learned is that if I am chairing a hearing, I can do something unusual; in this case, it will be asking Mr. Royce to start with his opening statement, and then I will deliver mine.

In the meantime, we may have votes called. Witnesses might as well relax; it is highly unlikely we will get to you before the votes are called on the floor.

Mr. ROYCE. And thank you, Mr. Chairman. I would like to state my desire to work closely with you, as indeed I think we have in the past. And I think this hearing today should help us better work through some of the great challenges that you and I talk about: The challenges that Iran poses to the security of the United States. So again, Congressman, I thank you for calling it.

Mr. Chairman, the Iranian regime is a state sponsor of terrorism, and I can attest to that, because I was in Haifa last July as Iranian-backed Hezbollah was sending rockets into the town of Haifa, where I was. And frankly, those rockets came from Iran and Syria.

Iran is aiding militants in Iraq. It is determined to develop nuclear weapons, or at least its President, its head of state, is. President Bush has rightly declared that unacceptable, which is all the more so, by the way, with the messianic Ahmadinejad in Iran's presidency as the one who wants to develop these nuclear weapons.

Unfortunately, I think you and I agree, Americans agree, that the world has been very slow to respond. The international community has not made a lot of progress, but lately the U.N. Security Council imposed limited sanctions on Iran. And Under Secretary of

State Burns originally testified that China's and Russia's backing of U.N. sanctions against Iran at first was more important than the actual sanctions themselves. Because if we can build international pressure, and we will see what the Security Council does this week, but if we can build that pressure, it may derail Tehran's nuclear weapons program.

The regime's weak spot is its economy, which is distressed. Government spending and inflation are spiraling up. Unemployment is spiraling up. Corruption is rampant. And meanwhile, Iran's oil windfall has been very mismanaged; the oil infrastructure is in shambles, desperately needing foreign investment. Despite its plentiful oil reserves, Iran right now has got a refining shortfall and imports 42 percent of its gasoline. Public discontent is growing.

The good news is that Iranians view President Ahmadinejad as bearing responsibility for these economic woes. Legislators have formally complained there about his economic policies. His popularity has fallen through the floor. The President's party did very poorly in recent municipal elections there in Iran. And we seem to have found, frankly, an effective pressure point, that being Iran's financial sector, because the international business community has noticed the risks. As a consequence, the foreign banks have left Iran.

Many companies are withdrawing from Iran. And they are doing it because of the risks of doing business there. Iran's foreign exchange transactions are being pinched. Iran's oil minister has complained that oil production is being hurt by Iran's international isolation.

Now, here is where we can be doing more. There is one element of engagement of subsidy by Europe which keeps some of their businesses in the game, and that is the export credits for commerce in Europe, which keep companies that otherwise wouldn't do business in such a risky place. That is, in fact, being subsidized by the taxpayers in Europe.

Now, Japan is scaling back. Germany must scale back. The European Union trade with Iran we understand is considerable, but remember, it is underwritten by the taxpayers in Europe. Sanctions and financial pressure are the best course of action for now with respect to Iran.

The United States must also reach out to the people of Iran, telling them that we have no issue with them, but that we must oppose a regime that backs terrorism and is developing nuclear weapons. So our message has to be Ahmadinejad's policies are isolating you, hurting your economy, hurting your livelihood, and it could get worse.

This realization is already setting in. We need to step up our public diplomacy, including radio broadcasts, and they have got to communicate that message. And they have got to communicate a message also of freedom. Regrettably, our public diplomacy efforts have been poor; that is a subject for another day. But it has not been anything like what we had in Eastern Europe.

The Nuclear Nonproliferation Treaty is a bulwark against Iran developing nuclear weapons, and of course Iran is twisting the MPT, claiming the right to enrich uranium, which would place it far too close to possessing nuclear weapons. Their President has de-

clared 2007 to be the year to celebrate Iran's right to develop nuclear power. The regime has even put the atomic symbol on its currency, trying to stoke national pride. Unfortunately for him, that currency is increasingly inflating in value.

Nevertheless, we would be in a weaker position, by the way, without the MPT. And Chairman Lantos and Chairman Sherman have introduced legislation promoting an IAEA-based nuclear fuel bank designed to dissuade countries from enriching uranium and reprocessing plutonium exercising this alleged MPT right. No doubt they have Iran in mind. There are questions about the workability of an international fuel bank, but this legislation forces this important issue. And I would like to give credit to Chairman Sherman for our chairman's leadership on that.

On a procedural point, my hope is that the TNT Subcommittee would give it full attention, including hearings, before the legislation is moved. And I thank you again, Chairman Brad Sherman.

Mr. SHERMAN. Thank you for that excellent opening statement. We will continue here until they tell us we have about 7 minutes to go vote. And even if I am in the middle of this carefully constructed opus, I will suspend, we will go vote, and we will come back. But again, I think the witnesses can relax.

I want to thank the Middle East Subcommittee for joining us, at least in spirit, with these hearings. I suspect that Chairman Ackerman and Ranking Member Pence will be with us at some point after the votes.

I do want to commend the ranking member, Mr. Royce, for his opening statement. The general comment and concern I have is how much time do we have, and how quickly are we moving. And I fear that the approach that we are taking now may end up being a day late and a dollar short.

In mid-2002 and Iranian opposition group held a press conference revealing the existence of a covert effort to produce enriched uranium, including the now-infamous Natanz pilot enrichment plant, and the planned industrial-scale facility for some 50,000 centrifuges to be built underground at that site.

Subsequent to these revelations, we learned many more details about the concerted Iranian nuclear program that had gone unreported for nearly two decades. Iran had no operational nuclear plants at that time. Nuclear fuel is cheap, readily available from a variety of international suppliers. The Russians, who were actually building the only Iranian nuclear plant under construction, would surely supply the fuel for that and any future plant.

The effort to enrich uranium, in the words of one expert, made about as much economic sense, if electric power was the objective, it made as much economic sense as building a slaughterhouse because you want a sandwich. Even if you buy the argument that Iran, with its natural gas and oil resources, needs nuclear power—that is a very hard argument to buy, given the fact that they are flaring natural gas—but even if you buy that argument, there is no explanation for the enrichment of uranium, except a desire to develop nuclear weapons.

The number one state sponsor of terrorism is trying to gain the most powerful weapons yet invented. In September 2005, we were able to achieve a referral of Iran to the U.N. Security Council. That

is to say, it took more than 3 years to get the Iranians into the docket, and we celebrated that as if it was a great victory.

Just over a year later, in December 2006, nearly 4½ years after the Iranians were caught red-handed with a covert program to develop nuclear weapons, the world finally took the basic step of cutting off nuclear-relevant commerce with Iran. And that is what we have achieved.

We are told that this is enormous progress. All we have done is to make it just a little bit harder for Iran to continue to do what we know they have been doing.

Given another 4 years we may finally get a ban on international travel by regime officials. Maybe another 4 years—which I would call the no Disneyland for Ahmadinejad sanction. And then maybe 4 years after that, we would be able to ban him from visiting Magic Mountain, as well. Needless to say, the nuclear program of Iran is going much more quickly than the sanctions effort.

At this point I am going to suspend. When we come back, I will finish this opening statement, and then we will hear any other opening statements from other members. Then we will go to witnesses.

Thank you.

[Recess.]

Mr. ACKERMAN [presiding]. In the interest of time I will begin my opening statement, and turn the gavel back over to Chairman Sherman upon his arrival.

As the IAEA recently reported, Iran's nuclear weapons program is booming, while the world's opportunity to prevent this horrifying prospect shrinks every day. Every day we debate options and argue about tactics, the Iranians are enriching uranium and working out the secrets to opening a massive cascade of centrifuges. Once that happens, the world will be a very different and much more dangerous place.

How did we come to such a predicament? To be blunt, 5 years ago we picked the wrong oil-producing, terrorist-sponsoring, weapons-proliferating, ultra-violent, authoritarian Persian Gulf state starting with the letter I on which to focus our attention. And ever since then, Iraq has been an enormous distraction from our most pressing national security interests.

Only recently has American policy begun to reflect the urgency of the Iranian nuclear threat. To be successful, or at least to have a chance at being successful, our Iran policy must be comprehensive. We need bigger carrots, and we need bigger sticks. We need a credible diplomatic and political alternative to offer the Iranians through negotiations, and we need to simultaneously utilize every means we have of applying pressure.

Everything must remain on the table. Maintaining Iranian uncertainty about the prospect of United States military action is the best way to ensure that force will actually not be necessary. Likewise, we have to continue to increase the economic and political course of Iranian proliferation efforts.

Fortunately, the international debate about sanctions is effectively over. The Iranians have been so outrageous, so obnoxious, so defiant that the U.N. Security Council is now debating what kind of additional sanctions to impose, not whether to sanction at all. To

be clear, sanctions are necessary; but alone, they are not sufficient. Sanctions work only when they are part of a multi-faceted policy, and when they are maximized in both their scope and their application.

At this point I ask unanimous consent to put the rest of my statement in the record. Seeing no objection, it is so ordered.

Now you have got the gavel.

[The prepared statement of Mr. Ackerman follows:]

PREPARED STATEMENT OF THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

As the IAEA recently reported, Iran's nuclear weapons program is booming while the world's opportunity to prevent this horrifying prospect shrinks every day. Every day we debate options and argue about tactics, the Iranians are enriching uranium and working out the secrets to operating a massive cascade of centrifuges. Once that happens, the world will be a very different and much more dangerous place.

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Likewise, we have to continue to increase the economic and political costs of Iranian proliferation efforts. Fortunately, the international debate about sanctions is effectively over. The Iranians have been so outrageous, so obnoxious and so defiant, that the UN Security Council is now debating what kinds of additional sanctions to impose, not whether to sanction at all. To be clear, sanctions are necessary, but alone they are not sufficient. Sanctions work only when they are part of a multi-faceted policy, and when they are maximized in both their scope and their application.

Our problem is that Iran's nuclear proliferation program has already achieved a number of significant technical successes, thanks especially to our not-so-very helpful ally, Pakistan. Thanks especially to A.Q. Khan's nuclear Wal-Mart, the mullahs stand on the cusp of mastery of the full nuclear fuel cycle.

Once that happens, achieving a nuclear weapons capability will only be a matter of the ayatollahs' choosing. So, time is short.

Since the elections last fall, U.S. policy towards Iran appears to have been reborn. Though we are still horribly mired in Iraq, we have recently moved new and powerful naval forces into the Persian Gulf. We have also expanded our diplomatic options by initiating a regular and serious dialogue with regional partners, and patient diplomacy may soon result in further sanctions from the UN Security Council. Likewise, we have finally taken away the Iranian Revolutionary Guard's license to instigate murder and mayhem in Iraq.

We have also had some significant success persuading some of the largest European banks that Iran is not only a bad actor on the international scene, but also a genuine source of reputational risk, a highly unreliable business partner, and a source of considerable potential financial liability. This is work that I believe can go much further still. If we grab the business community by their wallets, their hearts and minds will surely follow.

The Bush Administration has also finally accepted that dialogue with the Iranians is not itself, a mortal sin. The key, however, to any comprehensive negotiation with Iran—and this is absolutely critical—is that the ayatollah's uranium enrichment program must first be suspended. Without this condition, negotiations will only serve to shield continued Iranian progress towards a bomb.

Success in negotiations with Iran is highly unlikely. But two things are certain. First, not being seen to be willing to talk hurts America more than it hurts Iran.

And second, if we don't talk to the Iranians, we will never know if success was possible. Ignoring this possibility, however slight, is simply irresponsible.

The threat of an Iranian nuclear weapon to ourselves, to our allies in the Middle East and to the entire international community, is simply too great not to use every implement at our disposal. Too much time has already gone by. We can stop the ayatollahs from getting the bomb. We can.

But only if our efforts are comprehensive and aggressive, using every tool we have and squeezing out every bit of leverage available to us. The alternatives are simply unacceptable.

Mr. SHERMAN [presiding]. Thank you. I will need to return the gavel to you in just a minute or 2 to you to go vote. Oh, you are off.

We are probably going to suspend these hearings—I hate to ask your indulgence—for another 15 minutes, until we conclude votes in the Judiciary Committee, for reasons that the Appropriations Committee will have to explain to the House. It took them an extra 30 minutes for them to get to the floor for the floor votes, and now we have got Judiciary Committee votes. So we stand adjourned. I don't see any staff or any of my other colleagues who are likely to come right back, so we will stand adjourned for 15 minutes.

Thank you.

[Recess.]

Mr. WU [presiding]. Thank you very much for your forbearance with the House schedule. And with that, we are ready to proceed. And I would like to introduce our witnesses and experts.

First I welcome back David Albright, president of the Institute for Science and International Security here in Washington, DC. He is a renowned expert on nuclear proliferation issues, and is especially adept at looking into secret nuclear programs of countries like Iran and North Korea.

Next I welcome back Matt Levitt, senior fellow and director of the Washington Institute's Stein Program on Terrorism, Intelligence, and Policy. From 2005 to early 2007, Dr. Levitt served as Deputy Assistant Secretary for Intelligence and Analysis at the United States Department of the Treasury.

Daniel Byman is associate professor and director of the Security Studies Program and the Center for Peace and Security Studies at Georgetown University's Edmund Walsh School of Foreign Service. He is also a senior fellow at the Saban Center for Middle East Policy at the Brookings Institution.

We also welcome back Ilan Berman. Ilan is vice president for policy at the American Foreign Policy Council in Washington, DC.

And Mr. Levitt, if you would care to begin.

STATEMENT OF MATTHEW LEVITT, PH.D., DIRECTOR, STEIN PROGRAM ON TERRORISM, INTELLIGENCE, AND POLICY, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. LEVITT. Thank you very much. It is a pleasure and an honor to be back, especially as a private citizen.

I would like to ask if my remarks, full remarks, could be put into the record, and I will just read a shortened version of them.

Mr. WU. Without objection, so ordered.

Mr. LEVITT. Thank you. The pressing question is how the United States and international community can raise the cost for Iran's continued defiance of the international community over suspension

of its uranium enrichment program. What levers are likely to feed on domestic discontent and induce the regime in Tehran to abandon such objectionable and threatening activities?

Most commentators agree that any viable answer has to include a combination of military, diplomatic, and financial tools, as well as a mix of carrots and sticks. Where they differ is on the question of how to apply these tools, and in what combinations.

Keeping the military option on the table is important, but is by no means an attractive option. First, there is no simple military option that could wipe out Iran's nuclear program. And second, Iran today is one of the few places in the greater Middle East where the regime is anti-American, but the people are not. Invading Iran would certainly draw on Iranian nationalism and unite the population against us.

As for diplomacy, sitting at the table with Iranian officials in the context of improving security in Iraq was a good thing. There is, however, ample reason to doubt the sincerity of Iran's diplomatic message, and not only on Iraq, but on the nuclear issue and terrorism, as well.

While maintaining both military and diplomatic options with the former as a measure of last resort, and the latter as the preferred tool of choice, the United States should continue to apply targeted financial measures against Iran. These include not only graduated sanctions, but also efforts to leverage existing market forces. Together, these targeted financial measures offer the most flexible regime-hostile, people-friendly, and realistic tool at our disposal.

Graduated sanctions, including multilateral U.N. sanctions and unilateral measures to protect the U.S. financial system, are critical and effective tools. Employing these in a graduated manner demonstrates that the purpose of such measures is not simply to punish Iran, but to encourage change in the regime's behavior. Indeed, targeted financial measures are aimed at illicit conduct, not at a specific country.

The U.N. Security Council Resolution 1737 appropriately initiated sanctions against illusive individuals and entities involved in Iranian proliferation activity, and called for additional sanctions if Iran continued to defy the international community. It is critical that the international community both enforce the existing sanction regime, and quickly agree on an implement, a second tier of sanctions. Both should include a focus on key Iranian leadership figures and Islamic Revolutionary Guard Corps, the IRGC.

Other international measures that should be included in the next round of sanctions include an embargo on the sale of arms to Iran, and purchases from Iran, asset freezes and travel restrictions on senior Iranian officials tied to the regime's procurement activities and support for terrorist groups, and cutting off government-sanctioned import-export credits to Iran. Additional measures could focus on the shipping and shipping insurance industries, without which Iran can neither explore its crude oil, which is the backbone of its economy, nor import refined oil, which is heavily subsidized by the government.

One thing that should not be tolerated is the introduction of a false distinction between financial measures and trade, which some

European partners propose in an effort to maintain business contracts with Iran while imposing other financial sanctions.

Domestically, Treasury should continue to take action to safeguard the United States financial system from abuse by targeting Iranian financial institutions knowingly facilitating financial transactions in support of terrorism or proliferation activities.

Treasury's domestic actions have also been graduated. In September 2006, the Department cut off Bank Saderat from the U.S. financial system by denying it the ability to carry out so-called U-turn dollar transactions through third-party banks.

Four months later, in January 2007, the Department went a step further, fully designating Bank Sepah, its wholly-owned UK subsidiary, and its chairman.

The effectiveness of sanctions has increased manyfold when they are multilateral. That said, the impact of unilateral U.S. sanctions is also felt internationally due to existing market forces.

Foreign financial institutions and private industry, for example, increasingly incorporate Treasury's designation lists into their due diligence databases not because they are required to do so, but out of their own fiduciary interests. While in the business of making a profit, they have a responsibility to their shareholders to balance profit margin and risk, as well as gaggles of cautious lawyers looking over their shoulders to safeguard these firms from reputational risk.

There exists today one global economy, one international financial system. And the United States is at its center. Financial institutions are eager to maintain branches in New York City, which provides the Treasury Department significant leverage over their activities worldwide.

United States officials have therefore met with much success discussing global risk with governments and the private sector alike, whether referring to government-sponsored import-export insurance, lines of credit provided by public or private banks, maintaining correspondent banking relationships with Iranian banks or even facilitating their transactions, in dollars or other denominations, the common question, all parties doing business with Iran must ask themselves do you really want to be doing business with a high-risk actor like Iran.

To be sure, there is near-unanimous agreement that Iran's pursuit of a nuclear weapon and its support for terrorism pose significant risks to the global economy and global security. But there are more specific economic reasons for avoiding business with Iran as a country with a heightened risk for investment.

For example, Iran engages in a variety of deceptive financial practices to deliberately conceal the nature of its illicit businesses. Bank Sepah, for example, requested that other financial institutions remove its name from transactions when processing these transactions in the international financial system.

According to the State Department's recently released International Cardex Control Strategy Report, "There are currently no meaningful anti-money-laundering controls on the Iranian banking system." Moreover, according to the report, Iran claims to have established a financial intelligence unit, but has provided no documentation or details on its existence.

In light of these deceptive practices and the lack of anti-money-laundering controls, how can financial institutions or multilateral corporations have any level of comfort that their funds are going to end up in Iran's nine-digit budget line item for support to terrorist groups, or in its clandestine efforts to procure materials for its WMD programs through front and shell companies.

When the public sector shares information with the private sector and informs banks and businesses of these risks, market forces lead many to forgo business with Iranian institutions. In light of all of the above, it should not surprise that the OECD raised the risk rating for Iran in early 2006. And in the event banks and corporations do not determine that the reputational and litigation risks outweigh the potential profit benefits, the fact that these institutions want to conduct business in the United States often leads them to conclude that putting their United States business at risk is not worth the investment in Iran.

Under Secretary of the Treasury Stuart Levey, under whom I had the honor and pleasure to serve, put it best in a recent speech he gave in Dubai. And he said, and I quote, "It is clear that many businesses are taking it upon themselves to scale back on business with Iran. At first glance this may appear to present a tempting business opportunity for other corporations to step in. However, there is reason that these other companies are pulling back. They have decided that the risks of business with Iran outweigh any potential gain."

And later in the speech he was more direct: "Those who are tempted to deal with targeted high-risk actors are put on notice: If they continue this relationship, they may be next."

Targeted financial measures represent, in short, the strongest non-military tool at our disposal to convince Tehran that it can no longer afford to engage in dangerous destabilizing activities like proliferation and support for terrorism. A combination of graduated sanctions and leveraged or marshalled market forces can compel Iran to reconsider the utility of pursuing such endeavors.

Already there are signs of domestic discontent within Iran, and targeted financial measures can produce further political pressure on the regime. According to the Economist Intelligence Unit, the nuclear crisis and subsequent sanctions "is imposing a heavy opportunity cost on Iran's economic development, slowing down investments in the oil, gas, and petrochemical sectors, as well as in critical infrastructure projects, including electricity."

This assessment stands in stark contrast to the findings of the 2003 World Bank Report on Iran, which noted the "daunting unemployment challenge" facing Iran, and concluded, "Unless the country moves quickly to a faster path of growth with employment, discontent and disenchantment could threaten its economic, social, and political system."

We are already seeing the benefits of this strategy. Banks like UBS, HSBC, Standard Charter, Commerce Bank and others have decided to cut off or curtail dealings with Iran. Some foreign banks are refusing to issue new letters of credit to Iranian businesses, and Iran is now facing a stand-off with Russia over Bushehr, over Tehran's apparent desire to pay for Bushehr in Euros, not dollars.

Targeted financial measures are not symbolic sanctions. They have teeth, and Tehran is wary of their bite.

I am grateful for the invitation to testify before you, and I welcome any questions you may have.

[The prepared statement of Mr. Levitt follows:]

PREPARED STATEMENT OF MATTHEW LEVITT, PH.D., DIRECTOR, STEIN PROGRAM ON TERRORISM, INTELLIGENCE, AND POLICY, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

How can the United States and the international community raise the costs for Iran's continued defiance of the international community over suspension of its uranium enrichment program? What levers are likely to feed on domestic discontent and induce the regime in Tehran to abandon such objectionable and threatening activities as its sponsorship of terrorism, production and proliferation of weapons of mass destruction (and the missile systems to deploy these weapons)?

Most commentators agree that any viable answer has to include a combination of military, diplomatic and financial tools as well as a mix of carrots and sticks. Where experts differ is on the question of how to apply these tools and in what combinations.

Keeping the military option on the table is important, but is by no means an attractive option. First, there is no simple military option that could wipe out Iran's nuclear program. Second, Iran today is one of the few places in the greater Middle East where the regime is anti-American but the people are not. Invading Iran would draw on Iranian nationalism and unite the population against the United States.

As for diplomacy, sitting at the table with Iranian officials in the context of improving the security situation in Iraq was a good thing. There is, however, ample reason to doubt the sincerity of Iran's diplomatic message not only on Iraq, but on the nuclear issue and terrorism as well. While maintaining both military and diplomatic options—with the former as a measure of last resort and the latter as the preferred tool of choice—the United States should continue to apply targeted financial measures against Iran. These include not only graduated sanctions but also efforts to leverage existing market forces. Together, these targeted financial measures offer the most flexible, regime-hostile-people-friendly, realistic tool at our disposal.

GRADUATED SANCTIONS

Graduated sanctions, including multilateral U.N. sanctions and unilateral measures to protect the U.S. financial system, are critical and effective tools. Employing these in a graduated manner demonstrates that the purpose of such measures is not simply to punish Iran but to encourage a change in the regime's behavior. Indeed, targeted financial measures are aimed at illicit conduct not at a specific country.

UN Security Council Resolution 1737 appropriately initiated sanctions against a list of individuals and entities involved in Iranian proliferation activity and called for additional sanctions if Iran continued to defy the international community over its enrichment program. It is critical that the international community both enforce the existing sanction regime and quickly agree on and implement a second tier of sanctions. Both should include a focus on key Iranian leadership figures and the Islamic Revolutionary Guard Corp (IRGC).

The annex to UNSCR 1737 listing entities involved in Iranian proliferation activity does not include the IRGC. But two key leaders, IRGC commander Major Gen. Yahya Rahim Safavi and IRGC air force chief General Hosein Salimi, are listed as persons involved in Iran's nuclear and/or ballistic-missile programs. Under the resolution, member states "shall freeze the funds or other financial assets and economic resources . . . that are owned or controlled by the persons or entities designated in the Annex." In other words, by virtue of listing the overall head of the IRGC (and the head of its air force), the U.N. empowered—a strict reading suggests it requires—member states to freeze IRGC funds and financial assets. Since some of our foreign partners interpret UNSCR 1737 differently, the IRGC should be explicitly included in the second round of sanctions now being negotiated.

To be sure, the IRGC is precisely the element within Iran that should be targeted. Considered the backbone of President Mahmoud Ahmadinejad's political power base, the IRGC is an elite military corps that operates independently of Iran's regular armed forces and reports directly to the supreme leader. The IRGC is deeply involved in the country's nuclear, missile and other weapons proliferation activities, and maintains a special branch—the Qods Force—responsible for providing funds, weapons, improvised-explosive-device technology and training to terrorist groups

like Hezbollah and Hamas and insurgents attacking coalition and Iraqi forces in Iraq. Indeed, U.S. officials recently revealed that Qods Force commander Mohsin Chizari was among the six Iranians detained in northern Iraq last month.

Applying targeted financial measures against the IRGC represents the kind of regime-hostile, people-friendly sanction that punishes those engaged in offensive behavior without harming the average Iranian citizen. Indeed, the award of no-bid contracts to IRGC companies is already the stuff of domestic criticism and charges of cronyism. Moreover, the IRGC controls vast financial assets and economic resources. While most of the actual funds and assets are in Iran and beyond seizure, the IRGC's business and industrial activities—especially those connected to the oil and gas industries—are heavily dependent on the international financial system. Consider, for example, the \$2.09 billion contract to develop parts of the South Pars natural-gas field, or the \$1.3 billion contract to build parts of a pipeline, both meted out to the IRGC's engineering arm, the Khatam-ol-Anbia.

Other international measures that should be included in the next round of sanctions include an embargo on the sale of arms to Iran, asset freezes and travel restrictions on senior Iranian officials tied to the regime's procurement activities and support for terrorist groups, and cutting off government-sanctioned import-export credits to Iran. Additional measures could focus on the shipping and shipping insurance industries, without which Iran can neither export its crude oil (which is the backbone of the Iranian economy) nor import refined oil (which is heavily subsidized by the government). One thing that should not be tolerated is the introduction of a false distinction between financial measures and trade, which some European partners propose in an effort to maintain business contracts with Iran while imposing other financial sanctions.

Domestically, Treasury should continue to take action to safeguard the U.S. financial system from abuse by targeting Iranian financial institutions knowingly facilitating financial transactions in support of terrorism or proliferation activities. Treasury's domestic actions have also been graduated. In September 2006, the Treasury Department cut off Bank Saderat from the U.S. financial system by denying it the ability carry out U-turn dollar transactions through third party banks. Bank Saderat was cited for facilitating Iran's transfer of millions of dollars to Hezbollah and other terrorist organizations each year. Four months later, in January 2007, the Treasury Department went a step further, fully designating Bank Sepah, its wholly-owned UK subsidiary, and its chairman. Bank Sepah served as "the financial linchpin" of Iran's missile procurement network.

LEVERAGING MARKET FORCES

The effectiveness of sanctions is increased manifold when they are multilateral. That said, the impact of unilateral U.S. sanctions is also felt internationally due to existing market forces. Foreign financial institutions and private industry, for example, increasingly incorporate Treasury's designation lists into their due diligence databases not because they are required to do so but out of their own fiduciary interests. While in the business of making a profit, they have a responsibility to their shareholders to balance profit margin and risk, as well as gaggles of cautious lawyers looking over their shoulders to safeguard these firms from reputational risk.

There exists today one global economy, one international financial system—and the United States is at its center. Financial institutions are eager to maintain branches in New York City, which provides the Treasury Department significant leverage over their activities worldwide. U.S. officials have therefore met with much success discussing global risk with governments and the private sector alike. Whether referring to government sponsored import-export insurance, lines of credit provided by public or private banks, maintaining correspondent banking relationships with Iranian banks or even facilitating their transactions (in dollars or other denominations)—the common question all parties doing business with Iran must ask themselves is, "Do you really want to be doing business with high risk actors like Iran?"

To be sure, there is near unanimous agreement that Iran's pursuit of a nuclear weapon and its support for terrorism poses significant risks to global security. But there are more specific economic reasons for avoiding business with Iran as a country with a heightened risk for investment.

Consider a few examples:

- Iran engages in a variety of deceptive financial practices to deliberately conceal the nature of its illicit business. Bank Sepah, for example, requested that other financial institutions remove its name from transactions when processing these transactions in the international financial system. Similarly, Hezbollah's Jihad al-Bina construction company, designated by the Treasury

Department last month, approached solicitation targets in the name of proxies to disguise its ties to Hezbollah and Iran.

- According to the State Department's recently released International Narcotics Control Strategy Report, "there are currently no meaningful anti-money laundering (AML) controls on the Iranian banking system." Moreover, according to the report, Iran claims to have established a financial intelligence unit (FIU) but has provided no documentation or details on its existence.
- In light of these deceptive practices and lack of AML controls, how can financial institutions or multinational corporations have any level of comfort that their funds do not end up in Iran's nine-digit budget line item for support to terrorist groups or in its clandestine efforts to procure materials for its WMD programs through front and shell companies?

When the public sector shares information with the private sector and informs banks and business of these risks, market forces lead many to forgo business with Iranian institutions. In light of all of the above, it should not surprise that the OECD raised the risk rating for Iran in early 2006. And, in the event banks and corporations do not determine that the reputational and litigation risks outweigh the potential profit benefits, the fact that these institutions want to conduct business in the United States often leads them to conclude that putting their U.S. business at risk is not worth the investment in Iran.

Under Secretary of the Treasury Stuart Levey put it best in a recent speech he gave in Dubai to the 5th Annual Conference on Trade, Treasury and Cash Management in the Middle East:

It is clear that many businesses are taking it upon themselves to scale back [on business with Iran]. At first glance, this may appear to present a tempting business opportunity for other corporations to step in. However, there is a reason that these other companies are pulling back: they have decided that the risks of business with Iran outweigh any potential gain.

Later in his speech, the Under Secretary was more direct: "Those who are tempted to deal with targeted high risk actors are put on notice: if they continue this relationship, they may be next."

CONCLUSION

Targeted financial measures represent the strongest non-military tool at our disposal to convince Tehran that it can no longer afford to engage in dangerous, destabilizing activities like proliferation and support for terrorism. A combination of graduated sanctions and leveraged market forces can compel Iran to reconsider the utility of pursuing such endeavors.

Already there are signs of domestic discontent within Iran, and targeted financial measures can produce further political pressure within Iran. According to the *Economist Intelligence Unit*, the nuclear crisis (and subsequent sanctions) "is imposing a heavy opportunity cost on Iran's economic development, slowing down investment in the oil, gas and petrochemical sectors, as well as in critical infrastructure projects, including electricity." This assessment stands in stark contrast to the findings of a 2003 World Bank report on Iran, which noted the "daunting unemployment challenge" facing Iran and concluded: "Unless the country moves quickly to a faster path of growth with employment, discontent and disenchantment could threaten its economic, social and political system."

We are already seeing the benefits of this strategy. Banks like UBS, HSBC, Standard Chartered, Commerzbank and others have decided to cut off or curtail dealings with Iran. Some foreign banks are refusing to issue new letters of credit to Iranian businesses, and Iran now faces a standoff with Russia over Tehran's apparent desire to pay for Bushehr in euros, not dollars.

Targeted financial measures are not symbolic sanctions, they have teeth and Tehran is wary of their bite.

Mr. WU. Thank you, Dr. Levitt. Mr. Albright.

STATEMENT OF MR. DAVID ALBRIGHT, PRESIDENT, INSTITUTE FOR SCIENCE AND INTERNATIONAL STUDY

Mr. ALBRIGHT. Thank you very much. We can all agree that we do not want to see Iran with nuclear weapons, or even with a nuclear-weapons capability.

I would like to focus my oral testimony on certain aspects of Iran's uranium enrichment program, to have a more technical discussion. My written testimony is more detailed, and the ISIS Web site has a considerable amount of information on Iran's nuclear program.

I would like to focus on a set of questions that committee staff gave me. Perhaps one of the most frequently asked questions about Iran's nuclear program is whether Iran is competent in operating centrifuges. There have been many reports in the media that they can't operate centrifuges, there have been reports that they can operate them well.

Unfortunately, the question is difficult to answer. Iran is under no obligation to inform the International Atomic Energy Agency about such matters, and has chosen not to do so. It is also important to realize that Iran is unlikely to ever operate its gas centrifuge plant like the European gas centrifuge consortium, URENCO. And so when people ask the question, Has Iran gained mastery of gas centrifuges? you have to ask, What do you mean by mastery?

The most important aspect of this question is whether Iran has achieved adequate competence in the operation individually and in groups of what are called P-1 gas centrifuge cascades. And the focus is particularly on 164 machine cascade, which is the workhorse of the Iranian program.

Iran appears to be able to make all the centrifuge components for the P-1. I think a couple years ago that was still at issue, but currently Iran is assessed as being able to make all components. It is also gaining valuable experience in operating cascades, but it still for some reason has not operated these cascades continuously. And frankly, it is rather perplexing why.

If it is ever going to enrich uranium on a significant scale, it is going to have to run its cascades more than what we would estimate as perhaps 5 hours a day, on average. I mean, cascades aren't operated that way, but it just gives you a flavor of how these cascades are not operating anywhere near 24 hours a day, which is what you want.

Now, why is that? And frankly, there is a range of opinion. And these opinions are shared at the International Atomic Energy Agency.

One is certainly that they are just having technical problems, although I don't think that is the most likely answer. Another is that it is deliberately slowing down its program in order not to alarm the international community; that it is calculating that it will move slower in order to, in the long run, gain more progress, albeit at a slower rate. Another is that it is already competent at enriching uranium continuously in cascades, but it is simply choosing to hide that from the inspectors and the rest of the world.

An unanswered question is just how much assistance did Iran get from the A.Q. Khan network. Was it also provided with expertise in operating centrifuges?

And then the final one is just that Iran is implementing its own plan for cascade installation, that includes its own method to become proficient, according to its own timetable, and it has simply

chosen not to share that with the IAEA or the outside world. So I must say we are left with a rather wide range of possibilities.

But at some point Iran is going to have to play its hand. It is putting in place up to 3,000 centrifuges in the underground facility, and it is going to have to either start to operate these centrifuges, or start to actually look like it cannot do so.

But I would say that our bottom-line assessment at ISIS is that Iran is becoming more competent at running centrifuge cascades, but it has not yet demonstrated what one would call mastery or full competence.

However, we are also asked, How long will it be before they are competent? And it is a very difficult question to answer, but I would certainly say that by the middle of this year that Iran, even if it were having technical problems, could be competent at running its basic cascade.

Another question is: Is Iran likely to finish its first module, as they call it, in May 2007? You are all aware that Ahmadinejad has made a commitment to finish this 3,000-centrifuge module by the end of May. Most are skeptical that Iran can finish installing 3,000 centrifuges in that timeframe, let alone getting them all to enrich uranium. It needs to install about one cascade a week in order to meet that schedule.

Now, between the middle of January and the middle of February, it essentially met that schedule. So I would not dismiss Iran being able to meet a pretty rapid installation schedule. But still, remain frankly skeptical that they could get all those machines up and running. And I would estimate that they are going to need several more months to a year to get this module fully operational.

And I think you have all heard all the estimates that are out in the public, that once such a large number of centrifuges are operational, that they could use those centrifuges to make enough highly enriched uranium for a bomb in 6 to 12 months; it just depends on how well it would operate. This estimate assumes, of course, that Iran decides to take this path of producing highly enriched uranium. If it did, it would certainly be seen as violating all its commitments, and tantamount to seeking nuclear weapons.

So again, probably the more likely option is Iran would produce low enriched uranium in that cascade for some period, and try to stockpile its low enriched uranium, and achieve what we would call a break-out scenario: That in a fairly rapid period of time, it could enrich further the low enriched uranium to weapon grade, and achieve a nuclear weapon status rather rapidly.

So I think our assessments at ISIS are still that the worst case is that in 2009, Iran could have several thousand centrifuges operating, and have enough highly enriched uranium for a nuclear weapon.

There is still quite a bit uncertainty of that in that estimate, and we can see many ways that it could be delayed, and our estimate would become more in line with the standard estimates you hear, that we publicly reported from the U.S. intelligence community of no sooner than 2010 to 2015.

But if Iran does make faster progress in getting this first module to operate, then I think we are going to have to all re-look at our estimates.

The final question is whether the IAEA is capable of monitoring Iran's nuclear program. And I would say yes, if Iran implemented the additional protocol, including the additional transparency measures that have been requested by the IAEA.

However, Iran is doing neither, which explains the IAEA's recent statement in its safeguards report on Iran that it will no longer be able to provide assurances about the absence of undeclared Iranian nuclear facilities or activities. Which means another concern is that if the IAEA can't provide assurances about undeclared activities, we don't actually know if Iran is building a secret gas centrifuge plant.

It is unlikely, I believe it is unlikely they are doing that now, given the amount of resources it is taking them to put together this module in the underground site at Natanz. But in the future it becomes more worrisome, particularly if they develop this module and they are looking at a break-out scenario where they would want to take the low enriched uranium and turn it into highly enriched uranium. And they could do that at a secret site, which we would know nothing about. All we would know is that low enriched uranium has gone missing.

I would like to say that despite these limitations, the IAEA remains the best source of information on Iran's nuclear program. Its inspectors, even with limited access to people and places, are on the ground on a regular basis, and are well qualified to assess the Iranian program. The IAEA has people who have worked at URENCO; in fact, they have one person who was involved in developing some of the very same centrifuges that Iran is now building. He was working in the Netherlands in the 1970s, at the time when A.Q. Khan stole these designs from the Netherlands, and ultimately they ended up in the hands of Iran.

Also, intelligence assessments based on other non-IAEA information are more limited, and should be viewed with some skepticism, in light of past failures in Iraq and elsewhere. And so I would like to end my testimony by just saying that I think we all need to be very vigilant, and I would commend this committee for holding this hearing, we need to be more vigilant about the possible assessments that could either exaggerate or simply be wrong about the Iranian program. And I think we need a full fair and unclassified debate about Iran's nuclear capabilities, and ways to deal with that threat.

Thank you very much.

[The prepared statement of Mr. Albright follows:]

Iran's Nuclear Program: Status and Uncertainties

Prepared testimony by David Albright, President,
Institute for Science and International Security (ISIS),
Before the House Committee on Foreign Affairs, Subcommittee on Terrorism,
Nonproliferation, and Trade, Subcommittee on the Middle East and Asia

March 15, 2007

The nuclear crisis in Iran continues to pose serious challenges to international peace and security. Since mid-2002, when an Iranian opposition group revealed the existence publicly of secret nuclear activities in Iran, the world has struggled to develop an adequate response to the Iranian challenge. ISIS remains concerned that the Bush Administration places too much emphasis on military action or regime change to solve the crisis, causing its diplomatic initiatives to be weakened or to be launched too late to have a significant impact. ISIS believes that a diplomatic, peaceful solution to the Iranian situation is both preferable and more likely to prevent Iran from acquiring nuclear weapons.

During the coming months, it is vital to understand what Iran has accomplished in its nuclear program, what it still has to learn, and when it might reach a point when a plan to pursue nuclear weapons covertly or openly could succeed more quickly than the international community could react. However, this task is difficult, and the risk of exaggerated or simply incorrect analyses about Iran's nuclear effort remains, potentially leading to a military conflict with Iran. It is essential, therefore, that Congress insist on transparency from the administration and a full, fair, unclassified debate about the substance of Iran's nuclear efforts, and what can be done to defuse the looming crisis diplomatically. Toward that goal, I thank the committee for holding this hearing today and inviting me to testify.

Iran's Nuclear Program

Iran has invested heavily in nuclear industries in the last twenty years. It has sought a wide range of items overseas, including nuclear reactors, uranium conversion facilities, heavy water production plants, fuel fabrication plants, and uranium enrichment facilities. Many of its overseas purchases were thwarted, such as multiple efforts to buy research reactors and an attempt to purchase a turn-key gas centrifuge plant from Russia in 1995. However, in general, Iran found suppliers to provide the wherewithal to build nuclear facilities. A. Q. Khan and business associates in Europe and the Middle East, commonly called the Khan network, provided Iran the ability to build and operate gas centrifuges. Without their assistance, Iran would have likely been unable to develop a gas centrifuge program.

Iran's current nuclear infrastructure is large and growing. Although many key facilities are not finished, Iran is close to operating a large power reactor at Bushehr and has started relatively large fuel cycle facilities. Table 1 summarizes the main declared

nuclear facilities in Iran. Some of these facilities, such as Kalaye Electric, the formerly secret gas centrifuge R&D site in Tehran, are closed and others, such as the Arak heavy water reactor and the Natanz Fuel Enrichment Plant (FEP), are under construction. But the list shows that Iran intends to have one of the largest nuclear fuel cycle programs in the developing world. If Iran finishes its declared nuclear facilities, it would have a capability to produce highly enriched uranium (HEU) and weapon-grade plutonium for nuclear weapons.

Although most of the facilities listed in table 1 will be used for civil purposes, the fate of others remains difficult to determine. Determining the purpose of these facilities has been complicated, because Iran acquired so many capabilities in secret and did not fulfill its obligations under the Nuclear Non-Proliferation Treaty (NPT) to declare all its facilities, materials, and activities.¹

The International Atomic Energy Agency (IAEA) has reported regularly on Iran's lack of adequate cooperation to allow the inspectors to fully reconstruct the history of Iran's nuclear program. In addition, Iran decided early last year to no longer implement the Additional Protocol and other transparency measures required by the IAEA. The February 22, 2007 IAEA report concluded that without more cooperation and transparency, the IAEA "will not be able to provide assurances about the absence of undeclared nuclear material and activities or about the exclusively peaceful nature of that program."²

State of Iran's Uranium Enrichment Effort at Natanz

Under current and expected developments, Iran's gas centrifuge program provides the quickest route to the indigenous production of nuclear explosive materials. As a result, the gas centrifuge program is the main focus of my testimony. The following are answers to questions from Committee staff.

What is the current state of development at the Natanz site?

The Natanz site houses two separate facilities to enrich uranium in addition to a wide range of support facilities. Figure 1 is a recent commercial satellite image from GeoEye of the site, showing the location of the pilot plant and the underground Fuel Enrichment Plant (FEP).

The pilot enrichment plant is an above ground facility that can hold up to six 164-centrifuge cascades and several smaller cascades. As of the end of February 2007, only a few small cascades and two 164-centrifuge cascades were installed and operational. The cascades enrich uranium periodically and produce only small amounts of low enriched uranium (see below). The enriched uranium product of one 164-machine cascade is

¹ Iran's NPT Violations: Numerous and Possibly On-Going?, Jacqueline Shire and David Albright, September 29, 2006, <http://www.isis-online.org/publications/iran/iranntpvviolations.pdf>.

² IAEA, "Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolution 1737 (2006) in the Islamic Republic of Iran," GOV/2007/8, February 22, 2007.

dumped into the same tank as the waste, or “tails.” The product from the second cascade is collected and saved.

In January, Iran started to install about 3,000 centrifuges underground in the FEP. The centrifuges are slated to be organized into eighteen 164-machine cascades that operate together under a common control system to produce low enriched uranium, what Iran calls a “module.” The underground halls of the FEP can hold about 17-18 modules, for a total of about 50,000 to 53,000 centrifuges.

In mid-February 2007, Iran informed the IAEA that two 164-machine cascades were installed and under vacuum, an operational state established prior to enriching uranium.³ Two other 164-machine cascades were in the final stages of installation.

As of late February, no uranium hexafluoride had been introduced into either of the two cascades under vacuum. The area where uranium hexafluoride would be introduced is under IAEA seal, and thus the IAEA would be notified once enrichment started. The reason Iran had not yet introduced uranium hexafluoride is unknown.

The rate of future cascade installation is unknown, but Iran has stated that it wants to finish installation of all 3,000 centrifuges in May 2007. To meet this schedule, Iran would need to install about one cascade a week during March, April, and May.

Has Iran mastered centrifuge technology?

This question remains difficult to answer. Iran is under no obligation to inform the IAEA about such matters and has chosen not to do so. Defining mastery is also difficult, particularly given the differences between gas centrifuge programs in Europe and Iran. It is unrealistic to assume that Iran could meet the European company Urenco’s definition of mastery over the “P1” and “P2” centrifuges, two early generation Urenco machines, whose designs and copies Iran obtained illicitly from the Khan network. In fact, it is unlikely that Iran will ever operate its gas centrifuge plant as well as Urenco does. Thus, it is better to discuss mastery with the recognition that the Iranian program will be significantly less proficient than a Urenco program, but Iran will still be able to eventually produce large quantities of enriched uranium. A better formulation might be whether Iran has developed adequate competency in building and running centrifuges.

The most important aspect of this question is whether Iran has achieved adequate competence in the operation individually and in groups of gas centrifuge cascades, particularly the 164-machine cascade, the workhorse of the Iranian program. It appears to know how to make all the centrifuge components of the P1 centrifuge, the one being deployed at Natanz, and to operate the P1 centrifuge alone and in small cascades. It does not appear to have mastered the construction of the P2 centrifuge or a version derived from this design, although the IAEA no longer has access to this program and as a result much less is known about this program.

³ IAEA, “Implementation of the NPT Safeguards Agreement and Relevant Provisions of Security Council Resolution 1737 (2006) in the Islamic Republic of Iran,” GOV/2007/8, February 22, 2007.

The question about the operation of P1 cascades can be assessed using information from the IAEA. Iran reveals to the IAEA when the cascades enrich uranium and the amount of uranium hexafluoride introduced into each cascade and the quantity of enriched uranium produced. Based on this information, Iran has been enriching uranium in the two 164-machine cascades in the pilot plant at Natanz during the last year, but the cascades have enriched uranium intermittently. Iran enriches uranium in a cascade for a relatively short period of time and then stops the enrichment for a longer period of time.

During the roughly three month period between November 2, 2006 and February 17, 2007, each cascade enriched uranium an average of about 19 percent of the time, based on an Iranian definition of the optimal operation of the cascade.⁴ In terms of days, each cascade enriched an average of about 20 of the 106 days in this period. For illustrative purposes, this would be the equivalent of enriching uranium about 4.5 hours per day (although it is important to note that cascades are not operated in this manner).

Thus, Iran is gaining valuable experience in operating cascades, but it has still not operated its cascades continuously. Such operation is necessary to be able to produce significant amounts of enriched uranium.

In addition, Iran's centrifuges fail relatively often, according to the IAEA. This has led to speculation that the centrifuges do not work. However, each centrifuge operates independently. If one machine fails, it can be switched off and replaced. Thus, machine failure does not fully explain the limited operation of the test cascades. The high machine failure rate should probably be interpreted as an inevitable limitation of Iran's technical capacity to build and operate centrifuges.

Four explanations for the limited operation of the test cascades are possible:

- The centrifuges have experienced an unknown technical problem that prevents continuous operation;
- Iran is slowing its program down so as not to alarm the international community;
- Iran is already competent in operating cascades to enrich uranium, but that competency is being hidden. For example, Iran may have received undeclared assistance from the Khan network in this area; or
- Iran is simply implementing its own plan for cascade installation that includes its own method to become proficient, according to its own timetable, and has chosen not to share it with the IAEA or the outside world.

Despite limited cascade operation, Iran is in the process of installing 3,000 centrifuges in the underground hall of the Natanz Fuel Enrichment Plant (see below). This has complicated answering the competency question. Why would Iran move to the industrial-scale without knowing how to operate the cascades continuously?

⁴ Jacqueline Shire and Albright, "Iran's Centrifuges: How Well Are They Working," ISIS report, March 14, 2007.

The IAEA expects to know more about the answers to these questions shortly. In essence, Iran will need to play its hand soon if it is going to enrich uranium underground.

The bottom line is that Iran is becoming more competent at running centrifuge cascades, but it has not yet demonstrated to the IAEA or the outside world that it can run these cascades continuously. Barring political developments, Iran should be able to demonstrate competency in running individual 164-machine cascades by the middle of this year. Operating a large number of these cascades as a unit would be expected to take longer.

Is Iran likely to finish its first module in May 2007?

Most are skeptical that Iran can finish installing 3,000 centrifuges in May 2007, let alone getting them all to enrich uranium. As discussed above, Iran would need to install about one centrifuge cascade a week to accomplish this goal.

Media reports suggest that Iran has enough components to assemble 3,000 centrifuges. The exact number of assembled centrifuges is unknown, although if Iran had 3,000 assembled centrifuges, this information would suggest that in the last year, Iran has been assembling centrifuges more rapidly than it did while under IAEA scrutiny. Because the IAEA is no longer provided such information by Iran, this media information must be treated carefully.

Iran, however, is known to be working steadily to build the cascades in the underground hall. Iranians have been installing the necessary infrastructure for the entire module. As of late February, only the 18th cascade was composed only of its concrete foundation and pedestals that will eventually hold the centrifuges. All the other cascade positions had some amount of equipment already installed. As mentioned above, as of the middle of February, four cascades were under vacuum or in the final stages of installation.

As part of installing a cascade, Iranians must test each centrifuge, including all of the switches, sensors, and fast-acting valves, and ensure that each centrifuge works properly. Only after finishing these tests and leak testing the centrifuge is the cascade ready to be turned on and placed under vacuum, prior to the introduction of uranium hexafluoride. Accomplishing all these tasks complicates a schedule of installing one cascade each week.

Pending more information, it is possible, though not likely, Iran will meet its May deadline for 3,000 fully installed and operational centrifuges. If the experience of more advanced centrifuge programs is a guide, Iran may need several more months to a year to get the module fully operational. It will also need to continue making centrifuges to replace failed machines.

Once the module is fully operational, Iran would need approximately 6-12 months to produce enough highly enriched uranium for its first nuclear weapon. The shorter time period assumes that the cascades operate near their theoretical peak performance. This

estimate assumes, of course, that Iran decides to take this path of producing HEU, because it would be seen as violating all its earlier promises and tantamount to seeking nuclear weapons.

A more likely scenario under currently expected conditions is that the plant would produce low enriched uranium. However, this stockpile could be used later in a “break-out” scenario to produce HEU relatively quickly in this plant or a clandestine one.

Is the IAEA capable of monitoring Iran’s nuclear program?

If Iran implemented the Additional Protocol, including its additional transparency measures, the IAEA could effectively monitor Iran’s nuclear program. However, Iran is doing neither, which explains the IAEA’s recent statement that it will no longer be able to provide assurances about the absence of undeclared Iranian nuclear facilities or activities.

Thus, under current circumstances, Iran could build a secret gas centrifuge facility without being detected by the IAEA. The chance that intelligence agencies might detect such a facility is remote, absent a stroke of luck or excellent human intelligence.

Despite the limitations, the IAEA remains the best source of information on Iran’s nuclear program—its inspectors, even with limited access to people and places, are on the ground on a regular basis and are well qualified to assess the Iranian program. Intelligence assessments based on other, non-IAEA information are more limited and should be viewed with some skepticism in light of past failures in Iraq and elsewhere.

A pressing issue is whether Iran will accept adequate monitoring in the underground cascade hall of the Natanz enrichment plant under traditional safeguards. To effectively inspect the operation of the first module of centrifuges to ensure that nuclear material is not diverted, the IAEA needs to be allowed to either conduct unannounced inspections or install remote camera monitoring of the entire cascade hall so that the inspectors can view all the centrifuges on a real-time or near real-time basis. Currently, the cameras cover only a portion of the cascade hall and are not allowed to operate remotely. Arranging unannounced inspections in Iran is not practical, so the IAEA prefers to install remote monitoring.

The IAEA has told Iran that once 500 centrifuges are enriching uranium, it will need to change the safeguards arrangements to include unannounced inspections or remote monitoring of the entire hall. Iran could soon have that number of centrifuges enriching uranium.

What are some of the upcoming key benchmarks at the Natanz site?

To give a better sense of how far along Iran may soon be, the following are some upcoming benchmarks and what they mean:

500 centrifuges installed in the FEP and ready to begin enriching uranium: At this point, which Iran may reach within a month or less, traditional safeguards will be tested. The IAEA has told Iran of the need for remote monitoring of all centrifuges or unannounced inspections once this threshold is reached. The IAEA prefers the former option. Iran will have to make a decision about whether it will comply with the IAEA's request.

1,000 centrifuges at the FEP enriching uranium: The international community will likely view this development with great alarm. Iran would be credited with being able to build a centrifuge plant, although it would also be expected to continue experiencing significant inefficiencies in the plant's operation. This benchmark could be reached within a half year.

3,000 centrifuges enriching uranium: Few would doubt that at this point Iran has a nuclear weapons capability, whether or not the plant produces HEU. This number of centrifuges could make enough highly enriched uranium for one or two nuclear weapons per year, or create a large stockpile of low enriched uranium that could be used in a break-out strategy to produce HEU quickly either in the same facility or in a covert centrifuge plant. This benchmark could be reached within a year or two.

The State of Progress of the Arak Heavy Water Reactor?

Iran is progressing on developing an indigenous method to produce weapon-grade plutonium. It continues to build a heavy water reactor at Arak, despite repeated international requests that Iran discontinue this project. Iranian officials have stated that the reactor is scheduled to be completed in 2009, although this schedule could be delayed for a few years due to problems in building and starting up such a reactor. When fully operational, the reactor is estimated to be able to produce about 9 kilograms of weapon-grade plutonium per year, enough for one or two nuclear weapons per year. Iran has told the IAEA that it does not intend to build reprocessing facilities to separate plutonium from this reactor. It did state that it was planning to build hot cells to separate "long-lived radioisotopes," but said that it was having problems obtaining the necessary manipulators and lead glass windows. IAEA investigations into Iran's past reprocessing activities continue, despite decreased cooperation from Iran.

Final Comment: The Danger of Military Action

The pace and scale of Iran's uranium enrichment effort has been increasing in recent months. The possibility of a preemptive attack by Israel or the United States may increase as the enrichment effort progresses.

ISIS remains concerned about the potential for such an attack. Too often we have heard those in or close to the Bush administration observe that the President does not intend to leave the Iran nuclear issue for the next President. For a number of reasons, but especially due to the dispersed and hardened nature of Iran's nuclear facilities, an attack is unlikely to be surgical or limited and would constitute an attack against the entire

country. As you well know, U.S. military action would also increase the risk of sparking a broader war and undermining U.S. efforts to stabilize Iraq. Many military leaders have expressed opposition to the use of military force in Iran, but it is of concern that the Bush administration will pursue a military option nonetheless.

Those supporting a military option may be tempted to generate or accept exaggerated or false claims about Iran's progress or intentions. This temptation could increase because of the IAEA's diminished ability to report on the activities at declared sites such as Natanz and provide assurances about the absence of undeclared nuclear activities. Thus, Congress, the media, and the public need to be vigilant in ensuring a full, unclassified debate about Iran's nuclear program and the threat it poses.

Figure 1. Natanz Uranium Enrichment Plant



Table 1. Iran's Main Declared Nuclear Sites

Uranium Mining and Milling	Saghand Mine and Mill
	Gchine Mine and Mill
Nuclear Research & Development	Jabr Ibn Havan Multipurpose Laboratories (JHL)
	Radiochemistry Laboratories of TNRC
	Tehran Research Reactor (TRR)
	Uranium Chemistry Laboratory (UCL)
	Research reactors at Esfahan
	Molybdenum, Iodine and Xenon Radioisotope Production Facility (MIX Facility)
Uranium Conversion	Uranium Conversion Facility (UCF)
Centrifuge Research & Development and Manufacturing	Kalaye Electric Company (closed)
	Farayand Technique (status unknown)
	Pars Trash (status unknown)
	Other centrifuge manufacturing sites
Centrifuge Uranium Enrichment	Pilot Fuel Enrichment Plant at Natanz
	Fuel Enrichment Plant at Natanz
Laser Uranium Enrichment (program ended)	Lashkar Ab'ad
	Karaj Agricultural and Medical Center
Fuel Fabrication	Fuel Fabrication Laboratory (FFL)
	Zirconium Production Plant (ZPP)
	Fuel Manufacturing Plant
Heavy Water-Related Facilities	Heavy Water Production Plant
	IR-40 Heavy Water Reactor
	Hot Cells
Nuclear Power Generation	Bushehr Nuclear Power Plant (BNPP)
Waste Disposal	Anarak
Suspect Sites	Parchin, Lavisan-Shian

Mr. COSTA [presiding]. Thank you very much, Mr. Albright. I want you to know that I believe that this committee does intend to take it very seriously, and will continue to follow up. We thank you for your thoughtful testimony.

Our next witness is—and I might remind all those testifying that we do have your written statements for the record, and so if you can summarize to try to stay within the 5-minute rule, we will truly be appreciative.

And with that, I would like to introduce our next witness, Dr. Daniel Byman, associate professor and director of the Security Studies Program and the Center for Peace and Security Studies at Georgetown University's Edmund Walsh School of Foreign Service. He is also a senior fellow at the Saban Center for Middle East Policy at the Brookings Institute. And we look forward to hearing your testimony, Dr. Byman.

STATEMENT OF DANIEL BYMAN, PH.D., DIRECTOR, SECURITY STUDIES PROGRAM, EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Mr. BYMAN. Thank you. And I would like to thank members of the committee for having me today. And the hint was duly taken.

Mr. COSTA. Very good.

Mr. BYMAN. I will briefly talk about the dangers of an Iranian nuclear weapon, and then what I feel are a list of quite troubled and flawed United States options for dealing with it.

There are three main problems, in my judgment, with an Iranian nuclear weapon, all of which should make the prevention of Iran having a weapon a priority.

The first is that Iran might step up its backing of terrorist groups around the world. Although Iran is often called the world's leading sponsor of terrorism, it has been in the past much worse than it is today. And it is worth pointing out that it could go back to that level, or perhaps increase it.

A second concern is that Iran might be even more aggressive in Iraq. And a third is that it might spur proliferation elsewhere.

For all of this, Iran might be more aggressive because it no longer worries that United States conventional strength will punish it, because it has a nuclear weapon to protect it.

There are two things to point out, though, that Iran would not be likely to do. The first is that Iran is not likely to launch an unprovoked assault on the United States or one of its allies, including Israel, in the region with a nuclear weapon.

The second is that Iran is not likely to give a nuclear weapon to terrorist groups. And in Q and A, I am happy to expand on that, if you would like.

But a final caveat is in order for all of this, which is we know remarkably little about Iran's intentions with a nuclear weapon. And this is not meant as a dig at the United States intelligence community. It is meant to say that I do not believe that the Iranian leadership knows what it will do with a nuclear weapon.

There are various purposes that are possible, but acquiring a nuclear weapon has achieved a certain status symbol effect in Iran that I think goes beyond Iran's strategic ambitions.

Now, United States policy options for handling the nuclear program with Iran are poor. There have been advocates of talks with Tehran, and I agree the United States should talk with Iran about Iraq, terrorism, and other issues. But we show very low expectations.

Iran consistently has not gotten its act together in terms of a position with the United States, and right now it believes it has the high hand, in that the United States will make further concessions.

Regime change has not worked for the United States over the years. The U.S. has had very weak programs, and these efforts have met with no progress. The regime is well entrenched; the opposition movements seem penetrated. And even more important, Iranians are exceptionally sensitive to outside meddling. And the one thing guaranteed to unify them behind a regime they don't like is the idea that the United States is trying to manipulate the country.

It is possible that U.S. military strike on a uranium enrichment plant at Natanz or a uranium-conversion facility at Isfahan or other targets could set back the nuclear program. But in my judgment, a successful strike not only is far from guaranteed, but would likely backfire. I believe that the military options should remain on the table for the long term, but a strike right now would be a mistake.

It is not clear that the United States has the necessary intelligence to do such a strike. And even if we did, Iran for years has been reinforcing its facilities in preparation of just such a strike.

A strike would lead Iran to redouble its efforts to get a nuclear program, and also it would tarnish the U.S. image in the Middle East, which is actually about as low as it has been in modern history, and where the United States is already viewed as trigger-happy.

But the biggest concern is that Iran would strike back. Iran has an international terrorism presence, and has cased United States Embassies around the world. And in particular, Iranians talk openly of what they call 140,000 hostages next door in Iraq.

Although Iran is certainly up to no good in Iraq today, the situation could be far worse in terms of what Iran is involved in, and it could turn parts of Iraq that right now are relatively peaceful into parts comparable to the worst of Anbar Province. And we need to recognize Iran's power to strike back in Iraq.

Dr. Levitt has spoken ably about different economic instruments to press Iran, and I won't repeat what he said. I will simply emphasize what Mr. Royce said early on, which is Iran's economy is its vulnerability, and that is where we should be directing our efforts. We should be tightening the economic noose with regard to Tehran.

Although much of Iran's leadership supports the nuclear program and a nuclear weapon, many of them think economic growth should be a higher priority. And that difference is a source of potential U.S. leverage. And our strategy should be designed to strengthen those voices that are pragmatic enough to recognize that a nuclear program will mean Iran's economic ruin. And from our point of view, that means both calibrating the strategy, yet ensuring the punishments we are trying to inflict are tough enough where these voices are credible.

This pressure has to be sustained. Over the years Iran has made an art form of evading punishment, making token concessions, and otherwise trying to outlast the international community. We need to be sure that pressure we are applying today we can also apply again in 5 years.

I will add that Congress needs to allow the administration flexibility to put possible concessions on the table if Iran makes real, verifiable progress. At times, states have made progress on nuclear issues or terrorism, and it has been difficult for the administration to recognize that because of Congressional pressure. This should not be done today, because Iran is certainly going in the wrong direction; but the administration must have the flexibility to reward good behavior, as well as support for punishing Iran's current bad behavior.

I am going to conclude by saying that the United States must also recognize that influence over Tehran, while considerable, is not absolute. And as a result, there is a real possibility of failure, and we must begin to think about the implications of not only Iran with a nuclear program, but Iran with a nuclear weapon, and how the United States will handle that in its regional diplomacy and in its international diplomacy.

Thank you very much.

[The prepared statement of Mr. Byman follows:]

PREPARED STATEMENT OF DANIEL BYMAN, PH.D., DIRECTOR, SECURITY STUDIES PROGRAM, EDMUND A. WALSH SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Mr. Chairman, members of the subcommittee, and committee staff, thank you for this opportunity to speak before you today about the challenge Iran's nuclear program poses to the United States and how to move forward to meet this threat. As this committee knows well, Iran's leadership is hostile to the United States and often aggressive in undermining U.S. interests in the Middle East. A nuclear weapon would make Iran an even more formidable threat.

Despite this danger, U.S. options are limited at best. Many Iranian leaders are highly committed to the nuclear program, and it appears to enjoy widespread popular support. U.S. levers to move the clerical regime in Tehran, never strong, are weak. The debacle in Iraq has curtailed overall U.S. influence in the Middle East and improved Iran's bargaining position. U.S. policy will have to recognize the relative weakness of the U.S. hand even as it strives to maximize pressure on Tehran. Regime change, bombing campaigns, and other high-profile and blunt forms of pressure are likely to fail and may even backfire. A U.S.-led multilateral strategy to press Tehran economically and isolate it diplomatically offers the most potential leverage. Such a strategy must be calibrated to strengthen voices in Iran that worry that the nuclear program will lead to international isolation, which in turn would derail Iran's economy. Washington also must prepare for the possibility that its best efforts will not sway Iranian leaders.

WHY IRAN SEEKS NUCLEAR WEAPONS

Recent discoveries by the International Atomic Energy Association (IAEA) forced the Iranian government to admit the extent of its nuclear program, in particular its desire to develop all components of the fuel cycle for uranium enrichment—admissions that have reinforced longstanding U.S. beliefs that Iran seeks a nuclear program and helped convince more skeptical governments, particularly in Europe. Although most reports contend that Iran is several years from having an actual nuclear weapon, my level of confidence in this judgment is low: Iran could be much farther away, but it is also possible that Iran is closer to a nuclear breakthrough than current U.S. sources indicate.

Iran has sought a nuclear weapon for decades. Under the clerical regime, this effort has continued, albeit at varying levels of urgency. Today, Iran has many motivations for seeking nuclear weapons, and the removal of one would not change Tehran's ultimate objective. These motivations include:

- *Detering the United States.* Many Iranian leaders have long believed that the United States is determined to destroy the Islamic Republic. Iran's leadership is hostile toward the United States, and if anything the anti-U.S. camp has gotten stronger in recent years. Although the combative President Mahmoud Ahmadinejad receives most the attention due to his incendiary rhetoric, other senior Iranians, most importantly Supreme Leader Ali Khamenei but also a host of emerging leaders, also see the United States as a hostile and hegemonic power and believe Iran should join, if not lead, the camp opposed to Washington.

Over 25 years of U.S. efforts to isolate and weaken Iran, along with American rhetoric (and weak programs) to promote "regime change" have created considerable paranoia in Iran about U.S. objectives. The presence of U.S. troops along the Persian Gulf littoral has been the focus of Iran's military since the end of the Iran-Iraq war. The U.S.-led overthrow of Saddam Husayn's regime and subsequent occupation of Iraq, and the presence of smaller numbers of U.S. forces in Afghanistan, Central Asia, and at times Pakistan has also created a sense of threat in Iran, which is reinforced by rhetoric about the "axis of evil" and preventive war. Tehran's conventional forces are no match for those of the United States, and in general Iran has displayed a healthy respect for American military power. Not surprisingly, Iran's leaders see a nuclear weapon as the ultimate guarantee of the regime's security.

- *Extending Iran's regional influence.* A nuclear weapon also gives Iran a deterrent capacity against potential regional foes such as a resurgent Iraq or even Pakistan, where anti-Shi'a Muslim domestic violence is strong. But more important than this deterrent is the ability to use a nuclear weapon to bolster Iran's overall influence in the region. Iran would also play up its program as a way of defending the Muslim world against Israel, though this would be rhetorical commitment only.
- *Demonstrating Iran's status.* A nuclear weapon is the ultimate status symbol. Iran would demonstrate that it is a major power and deserves to be treated as such, a source of immense pride to both the Iranian leadership and the Iranian people in general. A nuclear Iran would swagger.
- *Gaining political capital at home.* As the crisis over the nuclear program has escalated in recent years, the dispute has become a political issue at home. Supporters of the nuclear program have turned it into a debate over Iran's pride and status, claiming that the world seeks to subjugate Iran and branding opponents as lackeys of the West. The regime's recent decision to issue Iranian current with a nuclear symbol on it is one example of how it milks the nuclear issue to bolster its domestic standing. Backing down on the nuclear issue thus would incur political costs to Iranian politicians, who would be vulnerable to charges of "selling out" Iran's security and dignity.

When assessing domestic political views on the nuclear program, it is important to distinguish between a nuclear power program and a nuclear weapons program. Although the regime's duplicity toward the IAEA and acute sense of strategic vulnerability strongly suggest that it intends to develop nuclear weapons, many Iranians would derive pride from a successful nuclear power program, seeing that as a sign of their technical accomplishments as a people. It is possible that the Iranian public would be satisfied with a continued nuclear power program even if there were guarantees embedded in it to ensure that it was not converted into a nuclear weapons program.

Because these motivations are strong and some (such as gaining political capital at home) have grown stronger in recent years, it is difficult for limited changes in U.S. policy or the regional environment to fundamentally alter Iran's desire for a nuclear weapon. For example, should Iranian leaders suddenly accept a U.S.-brokered regional security agreement, it would not remove the other reasons for seeking a nuclear weapon.

Although most Iranian leaders and the Iranian people want a nuclear capacity in the abstract, there is disagreement over the question of how much Iran should pay and risk to this end at the pace of the program. Some Iranian leaders, such as the current President, have a strong ideological commitment to the nuclear program and have staked their own reputation on defiance of the West. However, other Iranian leaders believe that the nuclear program is not worth Iran's political ostracism and the risk of economic sanctions. Still others see the need for a program but want to keep it on the back burner in order to avoid the possible penalties. These disagreements are a source of potential U.S. leverage.

RECOGNIZING THE DANGERS OF A NUCLEAR IRAN

A nuclear Iran would be a danger to the region, and the United States should make halting the Iranian program a priority. At the same time, Washington must recognize what Iran would not do should it gain a nuclear capacity.

A nuclear Iran would be more assertive in the region and internationally. Because Iran would be more secure from retaliation by U.S. or other conventional military forces, it could use its own weak conventional forces or support terrorism more aggressively with less risk to the regime. Iran can back oppositionists, press on bilateral disputes with its neighbors, or otherwise behave aggressively with more security because of its nuclear program.

From a U.S. point of view, Iran would be harder to coerce on two key issues: Iraq and support for terrorism. As noted above, Iran understands how potent the U.S. military can be and has avoided a direct confrontation for two decades. Though Iran remains one of the world's top supporters of terrorism, it has placed limits on its proxies as well as bolstered them. In addition, Iran has supported an array of groups in Iraq linked to violence, but it has so far refrained from unleashing its full power for subversion. Although Iran has provided training and weapons to an array of militia groups, many of which have at times attacked the United States, Iranian leaders have encouraged various Iraqi Shi'a groups to participate in U.S.-backed elections and reconstruction efforts. As Persian Gulf security expert Kenneth Pollack contends, "Although we may not necessarily like all of the same people in Iraq, on balance, Iran has so far been more helpful in advancing the causes of stability and democracy in Iraq than it has been harmful."¹ A nuclear Iran may continue with this mid-level support for terrorists or other anti-U.S. forces, but it might also decide to step up its backing of terrorists and anti-U.S. groups in Iraq, confident that the United States would be afraid to retaliate because of Iran's nuclear program.

Another concern is that a successful Iranian nuclear program would spur proliferation in the region and elsewhere in the world. Saudi Arabia, Turkey, and other regional states are concerned about the growth of Iranian power and might seek their own nuclear weapon as a deterrent. Regimes far from Tehran might also conclude that they too can acquire a nuclear capacity and suffer at most limited punishment from the United States and the international community.

Although these possibilities are worrisome and are enough to make halting the Iranian nuclear program a U.S. priority, it is important to recognize what Iran is not likely to do should it gain a nuclear weapon. First, it is not likely to do an unprovoked (as defined by Tehran) attack on the United States, Israel, or a regional Arab ally of the United States with a nuclear weapon. Although Iran desires to be a regional leader and to undermine U.S. influence, a nuclear strike would not directly serve its interests. In addition, the regime's behavior so far has shown that it is well aware of the devastating retaliation Iran would suffer should it launch a nuclear attack. And unlike North Korea or other murderous regimes, Iran's leaders are not willing to jeopardize the lives of millions of their citizens in such a way.

Nor is Iran likely to provide nuclear weapons to a terrorist group. Because these weapons can be devastating they would inevitably provoke a massive response against Iran, even if it tried to maintain deniability. Perhaps not surprisingly, Iran has not transferred chemical or biological weapons or agents to its proxies, despite its longstanding capability to do so. Nor do Iran's favored proxies actively seek nuclear weapons as does al-Qa'ida. The Lebanese Hizballah, for example, appears to recognize the "red line" drawn by the United States and other powers with regard to terrorist use of these weapons. Moreover, Hizballah's current tactics and weapons systems enable them to inflict considerable casualties. Only in the event of a truly grave threat such as an invasion of Iran would many of Tehran's traditional cautions go out the window.

A final caveat is in order when discussing Iran's possible use of a nuclear weapon: we simply do not have a complete understanding of Iranian intentions on nuclear issues. This is not meant as a criticism of the U.S. intelligence community, as I believe that Iranian policymakers have no firm strategy or consensus on their doctrine for a nuclear weapon they do not yet have.

POOR POLICY OPTIONS

Pundits and policymakers alike have proposed a range of policies for dealing with Iran's nuclear program. All have their flaws. To offset these weaknesses, several of

¹ Kenneth Pollack, "The Threat from Iran," Testimony before the House Armed Services Committee, September 29, 2005, p. 8.

the options below must be used in combination (and the ones that work against the better options should be avoided for now), but even in combination they have limits.

Talks with Tehran

Negotiating with Tehran over its nuclear program (or over Iraq, terrorism, and other contentious issues) is sensible, but expectations should be low. The Iraq Study Group noted the need to talk with U.S. enemies in order to achieve U.S. objectives. Ali Larijani, the head of Iran's Supreme National Security Council, made a similar endorsement with regard to talks with the United States, stating that "working with the enemy is part of the art of politics."²

Talks serve several purposes. Talks would help the United States communicate its position to Iran and gain a realistic understanding of the nuance of Iran's positions on various issues. The United States could thus better persuade, or compel, Iran. In addition, talks would acknowledge a reality accepted by every Middle Easterner: that Iran is a powerful regional country, and its concerns must be understood for progress to be made on the myriad issues troubling the region. Simply acknowledging this fact would help diminish Iranian insecurities on this score. Finally, holding talks would lessen concerns of U.S. allies that the United States is taking an uncompromising stance toward Tehran, making it easier to secure their support for stronger options.

There are long-term reasons to seek talks as well. Much of the Iranian public, and even many senior leaders, seeks an improved relationship with the United States. The leaders in particular seek the benefits of a better relationship without wanting to pay the costs in terms of policy changes, but it is important to note that the hostility is not immutable. This is even more so at the popular level, where there is often a surprising amount of goodwill toward the United States. Thus Iranian leaders could shift course regarding Washington and might even gain politically.

But we must be realistic about what talks would accomplish in the current political environment. Iran has long shown an inability to develop a coherent position regarding relations with the United States, and there is no reason to expect a change today. In addition to its nuclear program, Tehran remains highly committed to undermining U.S. regional influence, combating Israel, and supporting an array of terrorist groups. Progress on all these fronts simultaneously is not realistic.

The weak U.S. position in the region compounds these problems. The problems the United States has suffered in Iraq have left American forces overstretched and U.S. policy discredited. Many Iranians believe that the U.S. position is likely to deteriorate further. Iran, meanwhile, has found its influence growing in Iraq and its regional stature enhanced by Ahmedinejad's public defiance of Washington. Although recent U.S. arrests of Iranian personnel in Iraq and the deployment of an additional carrier battle group to the Persian Gulf were meant as a harsh signal to Tehran, they probably did not cause Iran to fundamentally reevaluate its view that the United States is bargaining from a weak position (though they may highlighted to Tehran that a failure to talk to the United States can be risky for Iran as well).

We can and should talk to Iran: we just should not expect talks alone to accomplish U.S. objectives.

Economic Pressure

Tightening the economic noose around Tehran is one of the best policy options, though it too has many limits. Iran suffers from a wide array of economic problems that make foreign investment and trade vital to its economic health. Despite the recent surge in oil prices, Iran suffers from high unemployment, and prospects look even dimmer as large numbers of young Iranians are entering the workforce. Corruption is rampant at all levels of government. Iran's critical oil infrastructure is in a shambles. The economy is also over centralized and often distorted by the prominent role of various parastatal foundations. Inflation is high, and the economic policies of President Ahmadinejad have worsened this, leading an increase in the price of basic foods by 25 percent.³ Literally tens of billions of dollars in foreign investment are needed to reverse these trends. Many Iranian leaders, including some who have no love for the United States, recognize the profound nature of these problems.

The threat of multilateral economic pressure played an important role in convincing Iran to reduce its support for international terrorism in the mid-1990s, and

²As quoted in Ray Takeyh, "Time for Détente with Iran," *Foreign Affairs* (March/April 2007), p. 26.

³Dariusz Zahedi and Omid Memarian, "The Clock May Be Ticking on Iran's Fiery President," *Los Angeles Times*, January 21, 2007, p. M2.

it could help slow down Iran's nuclear program today. In the mid-1990s, a series of Iranian terrorist attacks in Europe and in the Middle East led to a rare degree of unity among Western powers—unity that had the potential to lead to comprehensive sanctions or support for U.S. military strikes. Fearing that this growing pressure would jeopardize his government's economic program and isolate the regime, the Iranian government of Hashemi Rafsanjani (who today remains one of Iran's major power brokers) put a stop to the assassination of dissidents in Europe and mended fences with the Gulf monarchies. Though unsuccessful in stopping terrorism completely, the U.S.-led pressure did hurt Iran considerably. Financial pressure, in particular Washington's successful efforts to block IMF and World Bank funding to Iran, made Iran's debt crisis more debilitating.

Though still valuable, similar economic pressure today is likely to be less productive. The mid-1990s was a time of rock-bottom oil prices, while Iran's leadership had made economic growth and openness a priority. Today, oil prices are much higher, giving the regime breathing room with regard to reform and foreign investment. In addition, many of Iran's emerging leaders are suspicious of "foreign control" and favor economic policies of autarky, a philosophy that has historically proven devastating to economies that embraced but one that in the short-term makes economic pressure less feasible.

At present, there is little major power support for strong sanctions. Many states do not share U.S. concerns about Iran's nuclear programs and worry that their own trade and investment interests with Iran might suffer. Fortunately for U.S. policy, the bluster of President Ahmadinejad and Iran's clumsy handling of the nuclear allegations have virtually pushed European states and even Russia into a more responsible policy that has made the threat of modest sanctions plausible. This could easily change.

Recent developments in Iran signal that economics may be rising as a priority. Ahmadinejad's allies in December 15 municipal council and (clerical) Assembly of Experts elections did poorly, with more pragmatic figures doing well. Conservative newspapers issued broadsides against the President, and key figures such as former President Rafsanjani and Council of Guardians secretary Ayatollah Ahmad Jannati have both criticized President Ahmadinejad's handling of the economy and foreign policy provocations. UN sanctions led 50 members of Iran's parliament, few of whom are reformers, to call on the President to explain his actions.

Military strikes

It is conceivable that a U.S. strike on the uranium enrichment plant at Natanz, the uranium conversion facility at Isfahan, or other targets could set back Iran's nuclear program. Yet a successful strike is far from guaranteed. It is not clear the United States has the intelligence to target all the necessary sites. Referring to Iran among other countries, the Commission on the Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction (Robb-Silberman) found that the United States has "only limited access to critical information about several of these high-priority intelligence targets."⁴ Moreover, bombing with conventional munitions alone might not set back the program sufficiently even if the intelligence is sound. Iran has long feared just such a strike, and many of its facilities are probably underground or otherwise hidden or difficult to target. In recent years Tehran has also reinforced key sites to make them more resistant to bombing.⁵

A strike could also foster several long-term effects that would harm U.S. interests with regard to the nuclear program. A military strike would likely lead Iran to redouble its effort to gain a nuclear capacity. It would "prove" U.S. hostility and discredit moderate voices that opposed the nuclear program. In addition, a strike would further tarnish the U.S. image in the Middle East and internationally, where the United States is already viewed as trigger-happy and unwilling to embrace diplomacy.

Most dangerously, Iran would strike back. With the possible exception of Iraq, Iran appears not to have targeted Americans directly with terrorism since the 1996 attack on Khobar Towers, though it still retains the capability to do so. Iran instead uses terrorism as a form of deterrence, "casing" U.S. Embassies and other facilities to give it a response should the United States step up pressure.⁶ Should the United States strike Iran militarily, Iran could retaliate against U.S. facilities around the

⁴The Commission on the Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction, *Report to the President* (March 31, 2005), p. 11. The full report is available at: http://www.wmd.gov/report/wmd_report.pdf

⁵Peter Baker, Dafna Linzer, and Thomas E. Ricks, "U.S. Is Studying Military Strike Options on Iran," *Washington Post*, April 9, 2006, p. A1.

⁶Paul Pillar, *Terrorism and U.S. Foreign Policy* (Washington, DC: The Brookings Institution, 2001), p. 159.

world. In addition, the recent deployment of European peacekeepers to Lebanon, where Iran's ally Hizballah is strong, provides a venue to strike against any allies that assist the U.S. military effort.

Iraq is the biggest theater for Iranian retaliation. A military strike could easily lead Iranian leaders to step up their activities in Iraq, turning parts that are relatively peaceful into a war zone comparable to the worst parts of Anbar Province. Iranian commentators speak openly of the "140,000 hostages" next door in Iraq and clearly see the U.S. presence in Iraq as a potential source of leverage.

Regime change

The United States has fitfully tried to support regime change in Iran, both through rhetoric and at times by supporting an array of opposition groups with relatively limited funding. Such efforts have met with no progress. The Iranian regime is well-entrenched, and its security services have penetrated various opposition movements over the years with considerable success. The most effective sources of opposition to the Iranian regime are indigenous and largely have worked within the system without U.S. support. Even more important, the Iranian people are highly nationalistic. Though there is considerable dissatisfaction with the clerical regime, Iranians are exceptionally sensitive to perceived outside manipulation, and open U.S. backing of oppositionists could easily discredit the very forces we seek to help.

Regime change attempts, however, do affect the perceptions of Iranian leaders, both pragmatists and ideologues. Although the money spent is often paltry, it reinforces a sense that the United States is bent on destroying the Islamic Republic and gives ammunition to radicals when they seek to discredit voices that favor greater cooperation with the United States.

SHAPING THE DEBATE IN IRAN

U.S. policy decisions play into an active debate in Iran over whether, and how much, to confront the United States and the international community on the nuclear issue as well as on Iraq, terrorism, and other disputes. Although most Iranians favor the nuclear program, many are not willing to sacrifice economic growth upon the nuclear altar. Iran's reformist camp is weak, and many of its leaders are discredited. However, many Iranian elites who are part of the clerical regime's core believe that economic growth, not confrontation with the United States, should be the government's focus. They are confronted by numerous ideologues, but no camp dominates the government completely. Here the United States faces a difficult balancing act: it must press Iran hard enough where so that the threat is real yet not, at the same time, push so hard as to convince pragmatic Iranians that U.S. hostility is unchangeable and that Iran has no alternative to building a nuclear weapon.

U.S. threats of sanctions and isolation may strengthen the reform camp and economic pragmatists, but we cannot count on success. Many factors shape this debate, some of which are beyond the control of the United States. In addition, despite the best efforts of U.S. intelligence agencies, the U.S. government often lacks sufficient information about key players until well after decisions are made.

Lacking this granularity about regime politics in Iran, the best U.S. bet is to clearly and unambiguously lay out the alternatives for Iran: a decline in isolation and economic pressure if it moves away from its nuclear program versus comprehensive and sustained pressure if it continues to defy the international community. Although it is always tempting to work behind the scenes, a more effective policy would be an open one so that all Iranians can understand the true stakes rather than that allow the clerical regime to spoon feed information that bolsters an intransigent stance.

Diplomatic and economic pressure must continue and, for it to be effective, it must be multilateral. The pragmatists and the ideologues have often compromised with a policy that tries to split the United States off from other major powers. In this way, Iran can stay true to its anti-U.S. ideological agenda while at the same time maintaining trade and investment ties that are vital for Iran's economic health. When Iran has been confronted with a united front, as was possible in the mid-1990s and may again be today, it has been more likely to back down. The recent U.S. attempt to halt European and Japanese investment in Iran's oil sector is one such sensible means of exerting this pressure.

U.S. leaders must be wary of military pressure. Recent arrests of Iranian intelligence and paramilitary officials in Iraq and the deployment of additional aircraft carriers to Iraq risk backfiring on the United States and strengthening the hand of ideologues in Tehran. In addition, it is unclear whether the United States would back up its threats should Iran decide to escalate against U.S. forces in Iraq and doom the already challenged U.S. "surge" attempt. And a called bluff would make military pressure in the future all that harder.

Regional powers, major economic powers in Europe, and other key players such as Russia, China, and Japan are all instrumental in the effort to isolate Tehran. Thus Washington should consult carefully with these powers to issue credible threats about both current Iranian infractions and potential future ones. U.S. diplomacy should make the Iranian nuclear program a priority with these countries, even at the expense of other goals.

Pressure that can be sustained is essential. Iran in the past has tried to evade punishment by making token concessions or by publicly moving away from a controversial policy while privately continuing it. Tehran also might believe it could restart the program should there be a falling out between the United States and other powers over other foreign policy issues. Moreover, Iran's considerable progress in its nuclear program so far means that it could resume activities at an advanced level even if there is a hiatus today. Thus, the set of sticks used to threaten Iran must be ones that can be credible for years to come. Ideally, this pressure should grow as Iran's defiance continues. Iranian leaders should be forced to recognize that not only will they continue to suffer a degree of isolation and economic punishment, but that this pain will mount if they remain defiant.

The Iranian nuclear program also must remain an intelligence priority. This is necessary both before triggering any punishments (or perhaps rewards) and to help make a military option more feasible should other alternatives fail.

Should Iran show signs of being willing to back down, the U.S. government must show sufficient flexibility to allow this. The administration should have the support of Congress for offering Iran limited carrots in response to real changes in behavior. For example, the United States can agree to settle Iran's claims to the assets of the late Shah Mohammed Reza Pahlavi. Such a step is not a major concession but it allows Iranian hardliners to save face and gives pragmatists ammunition when they argue that U.S. hostility is not immutable if Iran does not make its nuclear program a priority. Similarly, the United States should be prepared to disavow regime change if it is clear that Iran would make significant concessions in exchange. Making clear that such concessions are on the table are also essential for allaying the fears of U.S. allies that Washington is only interested in confrontation.

At the same time, the United States should begin hedging against failure. Planning should begin on U.S. "red lines" with regard to Iraq, Israel, Saudi Arabia, and other priority countries. In addition, Washington must begin negotiations with its regional allies in particular to try to stop a spiral of proliferation in the region. This may involve additional security guarantees and should shape considerations of the basing of U.S. forces.

Mr. COSTA. Thank you very much, Dr. Byman, and for keeping your comments within the 5 minutes.

Our last witness, but certainly one who is familiar with this committee, we welcome back Mr. Ilan Berman. Ilan is the vice president for policy at the American Foreign Policy Council in Washington, DC, and is known as an expert in regional security throughout the Middle East, Central Asia, and the Russian Federation.

Mr. Berman, would you please present your testimony?

**STATEMENT OF MR. ILAN BERMAN, VICE PRESIDENT FOR
POLICY, AMERICAN FOREIGN POLICY COUNCIL**

Mr. BERMAN. Thank you, sir. And let me start by thanking the chairmen, Chairman Sherman and Chairman Ackerman, for the invitation to come here, as well as the ranking members, Congressman Pence and Congressman Royce.

Because you do have my written testimony in front of you, let me very quickly run through some of the main points.

I would say that a very good place to start in any discussion about Iran's nuclear program and the next steps is the current way of the political end when it comes to discussions about strategy. And today, if you were to ask any policymaker, expert, or analyst what can be done, you will very likely get one of three answers.

The first is that some people believe that the optimal way to deal with Iran's nuclear ambitions is to reach some sort of negotiated accommodation; essentially, dialogue with the Iranian regime.

The second is that there are others who have concluded that Iran's atomic efforts are a *casus belli*, and warrant the immediate use of force.

And the third group, a distinct group, thinks that the ascendance of a nuclear Iran or a nuclear-ready Iran is a benign, even a beneficial, turn of events, and that no action at all is needed on the part of the United States.

I would contend that none of these amount to a serious strategy, because diplomatic engagement, even though it can reap short-term benefits, risks alienating the young pro-Western population that we see on the Iranian street. It is a vibrant constituency of some 45–50 million people who will ultimately determine the political disposition of that country. And because of their age, that ultimately is likely to become very, very soon.

Military action is likewise deeply problematic, as Dr. Byman mentioned, both because of the intelligence shortfalls that we have, and because of the likely blow-back, that political blow-back, both abroad and within Iran, that such military action would entail.

As well, it is not feasible, in my opinion, to think that the United States can simply do nothing, because our inaction will prompt a number of negative regional dynamics, ranging from a new arms race in the Middle East to the rise of a radical, anti-American, Shi'a-dominated political order. That is something we should be concerned about.

Instead, the United States needs to look at five discrete areas. The first is intelligence. We need to expand intelligence on Iran's nuclear program, as well as the regime's larger strategic capabilities. We do have a substantial amount of knowledge now, as Dr. Albright mentioned. However, there are things that we don't know about the Iranian nuclear program, and these things are likely to be decisive.

For example, we do not know the extent and the success of Iranian procurement activities on the nuclear black market in the former Soviet Union over the last decade. Likewise, we don't know the extent of Iran's current contacts with the nuclear cartel of Abdul Qadir Khan, the Pakistani nuclear scientist; a cartel which, as testimony before this committee last year heard, is still alive and functioning.

The conclusion here is that these sort of inputs into the Iranian nuclear program have the ability to dramatically accelerate its pace and maturity. What the United States needs to do desperately is to, if I could use the term, "get smart" on Iran; to designate it as a priority intelligence-gathering target, which I am sure is going on already in certain sectors. But also to accurately identify the most effective means by which to blunt Iran's nuclear ambitions. And also, more than anything else, to accurately gauge how much time is left to achieve them.

The second point is creative diplomacy. And we have seen that over the last several weeks, there has been progress on the international level, at the United Nations Security Council. But I would think it is fair to say that the type of progress on sanctions and

other measures that is taking place is being outpaced by Iran's nuclear progress. And that means that the U.S. needs more creative bilateral and international diplomacy. It needs to exploit new developments, such as the fissures that are beginning to emerge between Russia and Iran over construction of the Bushehr plant. It needs to exploit them to strengthen its hand vis-a-vis Russia, and to leverage that relationship better.

The third point is counter proliferation. And today the United States faces essentially three proliferation problems relating to Iran.

We are concerned about outside assistance to Iran's nuclear effort that has the ability to accelerate it. We are concerned about the assistance that Iran already has received from Russia, from China, and North Korea, and other places, of being proliferated onward to places like Syria, or to groups like Hezbollah. And we are concerned that this model of Iran's nuclear progress will become internationalized.

And here it is worth noting that 2 years ago, there was one nuclear aspirant in the Persian Gulf; today there are nine. So it is something that I think is rather eye-opening. And what we need to do is we need to work better on technologies that slow Iran's acquisition of WMD capabilities, and make it more difficult for Iran to proliferate those technologies onward.

I won't mention economic sanctions, which is the fourth point, because my colleague, Dr. Levitt, has done so ably.

I would say, I would end by talking about one element that I think overrides all of the others. What the United States needs more than anything else is better strategic communications, both with the Iranian regime and the Iranian people.

To the former, the United States needs to communicate in no uncertain terms that its continued rogue behavior will carry adverse consequences, and consequences that are up to and including the use of force, if necessary.

To the latter, the United States needs to demonstrate its commitment to their urge for freedom; the urge for freedom that is visible on the Iranian street. And to do so not just in word, but in deed as well. And to do so, I think it is essential to understand that we need to launch an effort to reform and retool the existing outreach vehicles that we have toward the Iranian people: The Voice of America Persian Service and Radio Farda.

Today neither, I would say, is responsive to the core constituency they are designed to reach: The Iranian street. What we need to do is to overhaul these organs to be more responsive, and to provide a clearer message to the constituencies they are designed to reach. Moreover, all of this needs to happen soon, because the closer Iran gets to a nuclear bomb, the more difficult it will be to communicate.

I would end by saying that all of these steps are synergistic, and need to happen in tandem. But more than anything else, as you, Chairman Sherman, said, they need to happen soon, because time is running out.

Thank you.

[The prepared statement of Mr. Berman follows:]

THE IRANIAN NUCLEAR CRISIS: LATEST DEVELOPMENTS
AND NEXT STEPS

Testimony before the U.S. House of Representatives
Subcommittee on Terrorism, Nonproliferation, and Trade
and
Subcommittee on the Middle East and South Asia

Ilan Berman
Vice President for Policy
American Foreign Policy Council

March 15, 2007

Chairman Sherman, Chairman Ackerman, distinguished members of the
Subcommittees:

It is a privilege to appear before you today. Thank you for inviting me to discuss the
unfolding crisis over the Islamic Republic of Iran's nuclear ambitions, and the next
steps available to the United States in confronting this challenge.

With the exception of Iraq, no other crisis today so bedevils American policymakers.
The past four years have provided the international community with irrefutable proof
that the Iranian regime is pursuing a massive, multi-faceted nuclear endeavor—and
that it is doing so in defiance of world demands and in spite of United Nations
censure.

In and of itself, the possibility of the world's leading state sponsor of terrorism
acquiring the world's most dangerous technology should be deeply troubling. This
possibility, however, is made even more ominous by the fact that Tehran's nuclear
quest is beginning to have a profound impact on the already-volatile Middle East,
catalyzing a number of regional trends—from a new arms race to increased
proliferation—deeply detrimental to long-term American objectives and interests in
the region.

What can and should be done? Today, policymakers, experts and analysts have focused their attentions on what are essentially three options. Some have come to believe that the optimal way to deal with the Iranian regime's runaway nuclear ambitions is to reach some sort of negotiated accommodation. Others have concluded that Iran's atomic effort constitutes a *casus belli* that warrants the use of force. Still others believe the ascendance of a nuclear or nuclear-ready Iran represents a benign, even beneficial, turn of events, and that no action at all is needed. None of these approaches, however, amount to a serious strategy.

THE DANGERS OF DIALOGUE

Today, the gravity of the current crisis with Tehran has led more than a few policymakers and analysts to suggest the need for some sort of accommodation with Tehran. This school of thought is perhaps best expressed by Council on Foreign Relations scholar Ray Takeyh, who argues in the pages of the current issue of *Foreign Affairs* that the United States should seek "détente" and engagement with Tehran.¹

At face value, such an approach may indeed seem tempting. However, there are at least three reasons why "doing a deal" with the Islamic Republic is both potentially disastrous and ultimately self-defeating.

The first has to do with regime ideology. The Islamic Republic established by the Ayatollah Ruhollah Khomeini in 1979 is far more than simply a nation-state. Rather, it was—and remains—a radical revolutionary movement. According to the country's 1979 constitution, Iran's clerical army, the *Pasdaran*, is tasked not only with the defense of the country, but with "fulfilling the ideological mission of jihad in God's way; that is, extending the sovereignty of God's law throughout the world."² The goal of the Iranian regime, in other words, is not to become a part of the world community, but to overturn it. Such a regime has no interest in a diplomatic bargain that would diminish its international standing—irrespective of how attractive such an arrangement might happen to be to the United States.

The second is strategic. While it has not ruled out the possibility of one-on-one talks with the Iranian leadership *per se*, the Bush administration has imposed an important precondition on any such contacts: that the Iranian regime suspend its uranium enrichment prior to any dialogue. Such a stipulation is prudent; the United States does not want potentially protracted negotiations to serve as a boon to Iran's nuclear program, providing the regime with more time to make nuclear progress. Time and again, however, the Iranian leadership has rejected any such formula, declaring its intention to forge ahead with its nuclear program irrespective of U.S. and

international demands.³ In doing so, they have made clear that they have prioritized the acquisition of a nuclear capability over dialogue with the West. In and of itself, this represents an important indicator of the value placed by the Iranian leadership upon nuclear possession. Simply put, for Iran's ayatollahs, the nuclear program is not a bargaining chip; it is a core element of regime stability, and a vehicle for regional dominance.

Perhaps the most compelling reason for avoiding negotiations with the Islamic Republic, however, is demographic. Iran today is in the throes of societal transformation; fully two-thirds of the country's roughly 70 million-person population is aged 35 and younger. Moreover, this constituency, deeply disillusioned with the Islamic Revolution, is largely Western-looking in orientation. The country's current ruling elite, by contrast, is aging and ill, and lacks serious popular support from the Iranian "street."⁴ All of which means that in the next five to ten years, irrespective of what transpires on the nuclear front, the current leadership will give way to a new ruling order—one that is, at the very least, more predisposed to partnership with the United States and the West than the country's current rulers. Given these realities, a "grand bargain" with the current leadership could well yield tactical, short-term benefits, but the long-term costs would be enormous: the alienation of Iran's young, pro-Western population, a vibrant constituency that will ultimately determine the political disposition of that country.

THE PROBLEM WITH PREEMPTION

Military action is likewise deeply problematic. Administration officials from President Bush on down have declared a nuclear-armed Iran to be unacceptable, and have indicated that the use of force to curtail Iran's nuclear ambitions remains "on the table."⁵ As a practical matter, however, the steep costs of any military action against the Islamic Republic dictate that it must be seen as strictly a last resort.

For one thing, Iran is not Iraq. Over the past two decades, the Iranian regime has placed a premium upon separating, hardening and concealing its nuclear facilities. The aggregate result is a sprawling nuclear infrastructure estimated to encompass more than two dozen facilities, many of them buried or covert. Under these conditions, a raid on Iran's nuclear complex is not likely to mirror the preemptive strike against the Iraqi nuclear program carried out by Israel in 1981. Rather, any such military endeavor will be far more costly and complex, and can be expected to carry with it a much greater human toll. And, because the U.S. lacks complete, actionable intelligence regarding all of Iran's nuclear facilities, "denuclearization" by

force is not a feasible option. Rather, the United States will need to content itself with what is at best a plan to delay and partially dismantle the Iranian nuclear effort.

For another, Iran possesses significant retaliatory capabilities that can be harnessed in response to military action. These capabilities include terrorist proxies such as Hezbollah in Lebanon, Hamas and the Palestinian Islamic Jihad in the Palestinian Territories, and Shi'ite segments of the insurgency in Iraq—assets which can be activated by the Iranian regime as a means to foment instability in the region, and to ratchet up the costs of regional engagement for the United States. Iran also occupies a strategic position atop the Strait of Hormuz, and regime officials repeatedly have indicated that they would contemplate the use of their “oil weapon” to disrupt the global oil trade in the event of hostilities.⁶

Most damaging, however, is the likelihood that military action could serve to strengthen—rather than weaken—the Iranian regime. Because the idea of nuclear possession appears to be popular among ordinary Iranians⁷, and because the Iranian regime has managed to skillfully manipulate domestic discourse concerning their nuclear efforts, military action against the Iranian nuclear program could well spur a “rally around the flag” effect that would be serve to reinvigorate and reinforce the current leadership in Tehran.

BEYOND DETERRENCE

Some analysts, in turn, have responded to the current crisis over the Islamic Republic's atomic efforts by suggesting that it would be possible for the United States to deter a nuclear-armed Iran.⁸ In making this assertion, they have relied on the experience of the Cold War, during which the threat of mutual nuclear annihilation created a stable “balance of terror” between Moscow and Washington.

Such assumptions, however, are deeply flawed. Cold War deterrence functioned successfully because a series of conditions (good communication, rational decisionmaking, well-informed strategic planning, and, most importantly, a shared assumption that war should be avoided) were presumed to exist between the United States and the Soviet Union.⁹ None of these are present in America's current relationship with Iran.

Ever since the Islamic Revolution of 1979 and the subsequent takeover of the American embassy in Tehran, contacts between the United States and Iran have been sporadic, and overwhelmingly unofficial in nature. This lack of communication has

left the United States with critical gaps in knowledge about the policies, strategic priorities and, most importantly, the “red lines” of the current regime in Tehran.

Likewise, the expanding power of Mahmoud Ahmadinejad has raised questions about the long-term balance of power within the Iranian regime. While the traditional power structure of the Islamic Republic, in which Supreme Leader Ali Khamenei occupies the central religious and political role, remains intact, Iran’s radical president has demonstrated himself to be an independent political actor in his own right since assuming power in August 2005. Indeed, jitters over Ahmadinejad’s confrontational policies have already sparked a backlash in some corners of Iran’s clerical establishment. This has included a strengthening of Ahmadinejad’s chief political rival, former president Ali Akbar Hashemi Rafsanjani, as well as an expansion of the country’s main arbitration body, the Expediency Council, in an effort to bolster the country’s ruling clerical class vis-à-vis the country’s parliament and president.¹⁰ As these moves suggest, at least some in Iran appear to believe that a future struggle for political dominance within the Iranian leadership is not entirely out of the question.

Last, but perhaps most troublesome, is the emergence of a radical, messianic worldview among one segment of the Iranian political elite. Ahmadinejad, the most visible and vocal proponent of these beliefs, has publicly proclaimed that the central goal of his government is to hasten the return of the Islamic Messiah, or *Mahdi*, and has made clear that he sees his country in the midst of a “historic war” between Islam and Western civilization.¹¹ As this apocalyptic vision suggests, some within the Iranian leadership now appear to be actively seeking a nuclear confrontation with the West.

These factors indicate that the risk of miscalculation by either Tehran or Washington is far too great for a successful bilateral deterrence relationship akin to the one that prevailed between the United States and the Soviet Union during the Cold War. They also strongly suggest that the Islamic Republic could well be “undeterrable” in the traditional sense of the word.

THINKING CREATIVELY

Rather than relying on these approaches, the United States needs an innovative strategy designed to confront Iran’s nuclear aspirations, and blunt the impact of Iranian policies on the region. By necessity, such an approach will require American policymakers to focus on five separate but interrelated fronts:

Intelligence. American policymakers currently still know far too little about Iran's strategic capabilities, including how much time it will actually take for the Iranian regime to acquire the "bomb." The United States desperately needs a crash intelligence program to "get smart" on Iran. By necessity, such an effort will need to include, among other things, the collection of greater information on Iran's indigenous nuclear development, as well as better knowledge of Iran's clandestine WMD procurement activities on the territory of the former Soviet Union and its current level of interaction with the clandestine nuclear cartel of Pakistani scientist Abdul Qadeer Khan. Only by gaining these insights can officials in Washington identify the most effective means by which to blunt Iran's nuclear ambitions—and accurately gauge the time remaining to implement them.

Diplomacy. Over the past three years, the Bush administration's response to the mounting nuclear crisis with Iran has been overwhelmingly diplomatic in nature, and carried out via the United Nations. Of late, this route has begun to pay dividends. On December 23, 2006, the United Nations Security Council unanimously passed Resolution 1737, which imposed initial sanctions on the Islamic Republic for failing to halt its nuclear program. Since then, Iran's continuing defiance of international demands—and its violation of a new, February 2007 deadline to cease uranium enrichment—has prompted the international community to contemplate the application of additional sanctions.

Future success on the diplomatic front, however, requires the United States to recalibrate its approach to two countries: Russia and China. By virtue of their roles as enablers of Iran's nuclear program, as well as their status as permanent members of the United Nations Security Council, both will be central players in any diplomatic solution to the current crisis. With the former, the United States must dial down its rhetoric, however justified it may be, about Russia's anti-democratic drift in favor of a broader sort of dialogue that emphasizes the very real threat that a nuclear Iran poses to Russian interests, and which confirms the Kremlin's legitimate security interests in the "post-Soviet space." With the latter, meanwhile, the United States must recognize the economic logic behind Sino-Iranian cooperation, and provide the Chinese government with the proper political and economic rationale to make the correct choice about continued partnership with Tehran.

Counterproliferation. As dangerous as the Iranian nuclear program is, potentially even more threatening is the possibility that this capability will become an export commodity for Iran's ayatollahs. There are real reasons for concern on this score. Iran's leaders have demonstrated both the capacity and

the intent to provide WMD and related technologies to other aspiring weapon-states. Indeed, in recent years proliferation increasingly has taken on the role of declaratory Iranian state policy, with Iranian president Mahmoud Ahmadinejad himself publicly pledging to provide nuclear technology and assistance to any number of other Muslim states.¹²

At the same time, Iran has become a major “onward” proliferator of sophisticated technology to non-state actors, including terrorist groups. This trend was showcased during the summer 2006 war between Israel and Hezbollah, during which the latter incapacitated an Israeli naval cruiser using an Iranian variant of a Chinese “Silkworm” missile—a weapon that Israeli officials previously did not know the Shi’ite militia possessed.¹³ The United States must harness and adapt existing countreproliferation initiatives (among them the Proliferation Security Initiative and the Pentagon’s “Caspian Guard” program) to make it more difficult for the Iranian regime to acquire the technologies necessary for its WMD programs from abroad, and to prevent technology the regime has already acquired from making its way into the hands of other radicals.

Economic sanctions. Of late, the international community has begun to implement measures designed to impose real costs on Iran for its nuclear development. As part of the sanctions package authorized in December, the United Nations Security Council has blocked the provision of sensitive nuclear material to the Iranian regime and penalized entities engaged in proliferation-related trade with it. Additional measures, now under consideration by the Security Council, reportedly include a ban on government loans to Iran and additional penalties for proliferators.¹⁴ In tandem with these efforts, the United States has begun to take a number of meaningful independent steps to insulate the U.S. financial system from—and curb foreign investment into—the Islamic Republic.¹⁵

These measures, however, are only a small part of the economic leverage that the international community can bring to bear on the Iranian regime. Today, the Islamic Republic possesses at least three fundamental economic vulnerabilities. The first is its reliance on foreign supplies of refined petroleum products; more than a third of Iran’s annual consumption of over 64.5 million liters of gasoline is currently imported from a variety of foreign sources, at an estimated cost of more than \$3 billion annually.¹⁶ The second is the country’s centralized economic structure, which is dominated by a small number of powerful families and charitable foundations.¹⁷ The third vulnerability derives from Iran’s dependence on foreign direct investment; Iran’s energy sector currently requires approximately \$1 billion annually to maintain current production levels, and an additional half a billion dollars to

increase output.¹⁸ Economic measures that exploit these vulnerabilities can and should be exploited by the United States, either through the United Nations process or independently.

Strategic communications. In order to be successful, any American initiative—whether diplomatic, economic or military—will need to include a communications component designed to inform and reassure the key constituency that will be affected by its policies: the Iranian people. To date, however, U.S. outreach toward Iran has fallen far short of this goal. At times, it has been ineffective in articulating U.S. interests and objectives to the Iranian “street.” At others, it has been deeply damaging to America’s perception among, and influence with, the people of Iran.¹⁹ The United States needs an overhaul of its public outreach to Iran, one designed to amplify the strength and clarity of its messages to the Iranian regime and people. To the former, the United States needs to communicate in no uncertain terms that continued rogue behavior carries adverse consequences, up to and including the use of force. To the latter, the U.S. must provide concrete, sustained evidence of support for the urge for freedom that is visible today on the Iranian “street.”

The discussion above offers a glimpse into the methods by which the United States can confront, contain and deter the Islamic Republic. The stakes are enormous; without a serious plan to blunt Iran’s nuclear ambitions, the United States in the near future will indeed be faced with just three choices: capitulation, confrontation or marginalization. For now, however, there is still time to prevent American interests in the Middle East from becoming the victim of Iran’s successes. It is my sincere hope that the U.S. government uses it wisely.

NOTES:

¹ Ray Takeyh, “Time for Détente with Iran,” *Foreign Affairs*, March/April 2007, 17-32.

² Preamble of the Constitution of the Islamic Republic of Iran (as adopted on October 24, 1979), http://www.oefre.unibe.ch/law/icl/ir00000_.html.

³ See, for example, “Ahmadinejad: Iran’s N. Train Has No Brakes,” Fars News Agency (Tehran), February 25, 2007, http://english.farsnews.com/newstext.php?nn_8512060473.

⁴ Anecdotal evidence of the discontent of ordinary Iranians with their government abounds. Perhaps the most compelling example, however, took place in 2002, when more than half of the 1,500 respondents in an officially-commissioned poll carried out by three different Iranian polling institutes declared U.S. policy toward Iran to be “to some extent correct.” “Poll on U.S. Ties Rocks Iran,” *BBC*, London, October 2, 2002, http://news.bbc.co.uk/2/hi/middle_east/2294509.stm.

⁵ "Bush Keeps Iran Military Option," BBC (London), April 18, 2006, http://news.bbc.co.uk/2/hi/middle_east/4919804.stm.

⁶ Mohammed-Nabi Rudaki, deputy chairman of the Iranian parliament's national security committee, have warned that the Islamic Republic has the power to "to halt oil supply to the last drop from the shores of the Persian Gulf via the Straits of Hormuz" should serious measures be undertaken against the Islamic Republic at the United Nations. Similarly, Iranian president Mahmoud Ahmadinejad has warned the United States and Europe that the global price of crude has not yet reached its "real value." Even Iran's Supreme Leader, the Ayatollah Ali Khamenei, has threatened the West with disruptions in fuel shipments from the Persian Gulf in the event of a "wrong move" against Iran. See Yossi Melman, "Iranian official: UN Sanctions May Lead Us to Seal Off Persian Gulf," *Ha'aretz* (Tel Aviv), January 24, 2006, <http://www.haaretz.com/hasen/spages/674159.html>; "Iran: Oil Undervalued," United Press International, April 20, 2006; "Tehran Warns of Fuel Disruptions," BBC (London), June 4, 2006, http://news.bbc.co.uk/2/hi/middle_east/5045604.stm.

⁷ See, for example, Mahan Abedin, "Iranian Public Opinion and the Nuclear Stand-Off," *Midcast Monitor* 1, no. 2 (2006), http://www.midcastmonitor.org/issues/0604/0604_3.htm.

⁸ See, for example, Barry R. Posen, "We Can Live with a Nuclear Iran," *New York Times*, February 27, 2006, <http://www.nytimes.com/2006/02/27/opinion/27posen.html>.

⁹ For a detailed review of the role of deterrence in the current crisis with Iran, see James S. Robbins, "The Dangers of Deterrence," in Ilan Berman, ed., *Taking on Tehran: Strategies for Confronting the Islamic Republic* (Ilanham: Rowman & Littlefield – AFPC, 2007), 17-30.

¹⁰ Ayelet Savyon, "The 'Second Islamic Revolution' in Iran: Power Struggle at the Top," Middle East Media Research Institute *Inquiry and Analysis* 253, November 15, 2005, http://memri.org/bin/articles.cgi?Page_archives&Area_ia&ID_IA25305; Hamid Abadi, "State Expediency Council Enlarged," *Rooz* (Tehran), March 1, 2007, <http://www.roozonline.com/english/archives/2007/03/002810.php>.

¹¹ See Paul Hughes, "Iran President Paves the Way for Arabs' Imam Return," Reuters, November 17, 2005 and "Iran's President Criticizes Past 16 Years of Détente with West," *VOA News*, January 3, 2006, <http://www.voanews.com/english/2006-01-03-voa52.cfm>.

¹² Iran Offers Nuclear Technology to Islamic States," Associated Press, September 15, 2005.

¹³ Alon Ben-David, "Hizbullah Hits Israel's INS Hanit With Anti-Ship Missile," *Jane's Defence Weekly*, July 18, 2006, http://www.janes.com/defence/news/jdw/jdw060718_1_n.shtml.

¹⁴ "Nations Closer to Deal on Iran Sanctions," Associated Press, March 14, 2007.

¹⁵ These include the blacklisting of two major Iranian state-owned banks, as well as growing pressure on foreign corporations concerning the reputational risk involved in doing business with Iran. See "Treasury Cuts Iran's Bank Saderat Off From U.S. Financial System," U.S. Department of the Treasury, Office of Terrorism and Financial Intelligence, September 8, 2006, and "Iran's Bank Sepah Designated by Treasury Sepah Facilitating Iran's Weapons Program," U.S. Department of the Treasury, Office of Terrorism and Financial Intelligence, January 9, 2007.

¹⁶ "Iran's Refining Capacity to Increase to 900,000," *iranmania.com*, February 19, 2006, <http://www.iranmania.com/News/ArticleView/Default.asp?ArchiveNews=Yes&NewsCode=40656&NewsKind=CurrentAffairs>.

¹⁷ Paul Klebnikov, "Millionaire Mullahs." *Forbes*, July 21, 2003, http://www.forbes.com/forbes/2003/0721/056_print.html.

¹⁸ "NIOC Undertaking Host of Projects to Boost Oil Output," *Middle East Economic Survey* XLVIII, no. 19, (2005), as cited in A.F. Alhajji, "Will Iran's Nuclear Standoff Cause a World Energy Crisis? (Part 1 of 2)," *Middle East Economic Survey* XLIX, no. 13 (2006), <http://www.mees.com/postedarticles/oped/v49n13-5OD01.htm>.

¹⁹ In a public letter to the President dated February 8, 2007, Senator Tom Coburn (R-OK), a member of the Senate Homeland Security and Governmental Affairs Committee, outlined a number of the deficiencies plaguing U.S. outreach toward Iran, including distortions of Administration message, a policy of engaging regime advocates as guests, and editorial liberties by broadcasters. These deformities, Coburn argues, threaten to undermine the President's "role as lead diplomat" toward the Islamic Republic. http://coburn.senate.gov/ffm/index.cfm?FuseAction=Files.View&FileStore_id=dc2fb01e-d537-4bdc-b46a-acca3d543741

Mr. SHERMAN [presiding]. Thank you. At this point let us turn to Mr. Costa for questions.

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

Mr. Albright, you spent a great deal of time in your testimony about the technological advances of their nuclear capability. You didn't speak of their delivery capability. If, in fact, they do develop one or more nuclear weapons, what is their ability to deliver the system with any reliability?

Mr. ALBRIGHT. The main system that we think they would depend on is the ballistic missile, and the Shahib-3 in particular.

A key question is whether Iran can build a warhead sufficiently small to fit on that missile. There is also an outstanding question: Did the A.Q. Khan network provide Iran with more advanced nuclear warhead designs?

Mr. COSTA. In that point, how good do you think our intelligence is?

Mr. ALBRIGHT. Well, I don't want to judge it. I think there are a lot of gaps in it.

Mr. COSTA. There was a lot of, based upon our most recent history in the last 4 years, there is obviously cause for concern.

Mr. ALBRIGHT. No, there are gaps, certainly there are gaps in it. And I think it is very hard to overcome those gaps with human intelligence. It is hard to do that.

Mr. COSTA. Based on those gaps, how much time do you think we have? Three years plus?

Mr. ALBRIGHT. Our worst-case assessment is still that in 2009 they could have enough highly enriched uranium for a nuclear weapon. We can see lots of ways that that estimate could get pushed back.

Mr. COSTA. I would like to switch to Mr. Levitt, Dr. Levitt or Dr. Byman.

You talked about focusing on the economy, both of you did. And I agree, I think that is frankly a better means. But given the challenges that we face with our allies, how much more progress do you think we could make, and where would it make the most amount of difference with the Iranians?

Mr. LEVITT. I can answer that in two ways. One is I think there are lots of ways I think we can make progress with our allies with what is beginning to come out in the press today, whether it turns out to be accurate or not, about the second tier of 1737 sanctions. If anybody thought that that was going to be comprehensive, that would have been naive. But there are, I understand, 18 new entities that are being listed in the Annex for designation purposes, 10 of which are associated with the IRGC. That is very good news.

There is a lot that needs to be done on two levels. One is, as I mentioned, resisting the Europeans' pressure to make a distinction between financial measures and trade. It is a completely false distinction. We should be stopping import-export credits, lines of credit, et cetera.

Mr. COSTA. Right. And the second one?

Mr. LEVITT. The second one is working more, as Mr. Berman said, on Russia, and I would add China, especially with the Security Council, so that we can get something multilateral through, because Iran will feel that.

If I may, the second sign, however, is our unilateral sanctions, as I said, have an international impact just by marshalling market forces. And so there is a lot of potential.

Mr. COSTA. All right. Dr. Byman, do you have anything to add? Because my time is running out, and I want to ask Mr. Berman another question. All right.

Mr. Berman, with your background with Russia, and you all shared common thoughts on this, what is the key? I mean, we have this relationship with Russia, but it just seems to, I think to many of us, that Russia is trying to have it both ways. And therefore, how do we really prevent Russia from continuing to have it both ways, and make them a meaningful partner in this effort?

Mr. BERMAN. I think that is an excellent question. And I would say, just by virtue of background, that the traditional Russian-Iranian relationship as we understand it is really underpinned by three things.

It is underpinned by a fairly robust military trade, arms trade, and of late, over the last 8 years, a nuclear trade as well. It is underpinned by Russian concerns about Iran's capability to cause trouble in what Russia calls the "Southern Rim," in the Caucasus and most of the majority, the majority Muslim states of Central Asia. And it is underpinned by good, old-fashioned anti-Americanism.

And the last one we can't do anything about. There are certainly many people, certainly in the force ministries and in places like Rosatomexport, which is the main atomic sales body for the Kremlin—

Mr. COSTA. They are making a lot of money off the Iranians.

Mr. BERMAN. They sure are, they sure are. And here, the anti-Americanism is hard to combat. But I would say that on the two other fronts there are hopeful signs. There are signs, over the last 4 years, that Iran has begun to breach the sort of understanding that it has reached with Russia previously, and begun interfering more and more in the politics of Central Asia and the Caucasus. And this is certainly something that is of concern in Moscow.

And the other element that I think is exploitable, frankly, is the fact that Russia is discovering that Iran is not as durable a defense industrial partner as it originally thought. The current scandal over Bushehr has to do with the fact that Iran has been in default of the monthly payment that it owes on the Bushehr Reactor, and it has been in default for some months. Those payments total \$25–\$30 million a month, so that is a pretty hefty sum.

So what Russia is discovering is that the steady stream of funds that it expected from Iran might not be so steady after all.

Mr. COSTA. Thank you very much, Mr. Chairman. My time has expired. But I do appreciate your efforts and your focus.

Mr. SHERMAN. Thank the gentleman from California. Now we turn to the other gentleman from California for 5 minutes.

Mr. ROYCE. Yes. And as you mentioned, Dr. Berman, those payments are certainly questionable. The possibility of Iran being a good business partner is really called into question by the conduct of the regime.

But how do we explain the actions of the government-sanctioned import-export credits to Iran? In my opening statement I talked

about Italy and Germany, France, and the fact that their government's taxpayers were underwriting this. And this is one of the few things that is keeping any lifeblood in that economy.

So let us discuss for a minute, does this take an action by the EU? Does it take a U.N. Security Council resolution? How do we get the point across that when businesses in Europe are pulling out, the government in Europe shouldn't be subsidizing this?

And let us ask also, let me ask you, Dr. Levitt, you probably have the best information on this, which are the prime offenders worldwide, in terms of export-import credits, that should be addressed? We will start with that aspect.

Mr. LEVITT. I would have to get back to you, and I will be happy to do that, on who the worst offenders are.

Mr. ROYCE. Both per capita and in overall terms. I think this would be important, because this should be a prime focus.

Mr. LEVITT. I don't have those in front of me, but I can get them and get them to you. I will be happy to do that.

Mr. ROYCE. I appreciate that.

Mr. LEVITT. Your point is exactly what I was trying to get at with the point that we should not be allowing a difference to be made between trade and financial measures. This is exactly what many European countries are trying to do so they can continue to facilitate certain types of business, while putting some types of financial pressures in place.

The \$25-\$30 million a month to Bushehr, or to Russia for Bushehr, may well be tied to this. Because, according to released press reports, what is happening is that Iran wants to pay in denominations other than dollars. The contract calls for dollars. Iran is having a hard time with dollars because of our sanctions. And so there are a lot of trickle-down effects to this just through the market.

We need to do a lot more diplomatically, and I think bilaterally we will be more successful than leading into multilateral arenas to convince the Europeans that not only is this type of investment in Iran a poor security decision, it is a poor economic decision.

Again, Iran has no anti money-laundering regime, period. I mean, how do you know the money you are investing for X is not going to Y? You absolutely cannot. And as a fiduciary obligation, they understand that language. They understand when you walk into their offices, public and private sector alike, and use the term reputational risk.

Mr. ROYCE. Yes, we talk about diplomacy, but frankly, how do you get the Europeans to address it? Again, do you go through the EU? What is the process? A U.N. resolution? How do we get that leverage?

Mr. BERMAN. My personal feeling is that we will not make any headway in multilateral bodies until we have made headway bilaterally, so that those individual member states will be more cooperative in the multilateral setting. So I think it is very important to continue the bilateral discussion, and pressure, frankly.

Mr. ROYCE. Okay. Now we go over to Dr. Byman. Your comment, we have got to strengthen the voices in Iran that worry that the nuclear program will lead to international isolation, which in turn would derail their economy.

Who are these voices? How strong are these voices? How do you amplify those voices? How do you strengthen them?

Mr. BYMAN. Those voices, an example would be the former President, Rafsanjani, who, let us be clear, this is not a good man. This is not someone that the United States should be happy has influence in the world.

But there are voices in Iran that recognize that the confrontational path of the current President has been a disaster for Iran.

Mr. ROYCE. Well, he is the richest man in the country, so the destruction of wealth in the country impacts him.

Mr. BYMAN. Right. And there are several others. There are many among the Iranian technocratic elite who are smart people, who recognize that you need foreign investment and foreign trade to have a modern economy, and they care about that.

There are others who have emerged, and who have become stronger, apparently recently, who actually have a very kind of 1970s leftist view of economics, which is you want self-reliance, and you don't want trade. But it is hard with oil prices high to strengthen the voices of those calling for investment.

But that said, oil prices are not going to solve—high oil prices are not solving Iran's problems. And we have seen in the last 6 months that the more radical camp, in losing out in local elections, there has been a lot of criticism, so it does seem that the voices of, I won't say moderation, but pragmatism are becoming stronger.

Mr. ROYCE. And I want to ask Mr. Berman. You say Iran is currently interacting with the clandestine nuclear cartel of Pakistani scientist A.Q. Kahn. Kahn is under house arrest in Pakistan. We are trying to see him.

Are you suggesting that that network is still active?

Mr. BERMAN. Well, Congressman, I go by the same testimony that you received here.

Mr. ROYCE. I figured you were going to say that.

Mr. BERMAN. And so I can only defer to those experts. However, I have heard from more than one source that the type of asymmetric proliferation that has existed for some time in the Gulf has not become a thing of the past, as a result of the house arrest of A.Q. Kahn. And there are suspicions, as you heard yourself in the fall, there are suspicions that even that network itself, the A.Q. Kahn network itself, is still operational in some fashion.

Mr. ROYCE. Gentlemen, thank you very much for your testimony.

Mr. BERMAN. Thank you.

Mr. SHERMAN. The gentleman from South Carolina.

Mr. WILSON. Thank you, Mr. Chairman. And thank you for being here today. And I want to commend Congressman Royce; he had the question I had for you, Dr. Levitt.

And indeed, the import-export credits, I look forward to getting the information from you as to the countries that are facilitating these credits.

Additionally, you and Dr. Byman have pointed out that this is a modern economy, it is a trading economy. And in terms of which countries do they mostly trade with, and what do they trade?

Mr. LEVITT. Again, I can get back to you with more specifics. But the biggest offender, of course, is the oil sector and the gas sector.

Petrochemicals next, but oil and gas is almost everything we are talking about, for all the obvious reasons.

Germany now is looking at a gas deal. I don't think necessarily because they are trying to be bad actors, but because, again, Russia. They have learned the hard way that they cannot rely on gas supplies from Russia.

I think that is a good example where diplomacy can be effective, because there are other ways to facilitate their getting reliable gas without having to go to Iran.

Mr. WILSON. And it is my understanding India, China are major trading partners. And indeed, I would hope that they would understand a point that Mr. Berman brought up in regard to Russia.

It is really frustrating to me that the potential of nuclear development in Iran, to me, is a greater, more immediate threat to Russia possibly than any other country, with the proximity of Chechnia, the ease of land travel. It will take a little while to get to us.

But why can't they comprehend this threat? And I would also extend it to China. Why can't, with the potential of unrest, understand that nuclear proliferation directly impacts Russia and China?

Mr. BERMAN. Well, the answers are separate for Russia and for China, but let me try to take a stab at both.

On the Russian side, I think there is a great deal of concern about Iran's potential to foment instability. And so that has, if you were to use the phrase, has the Russians over a barrel, so to speak, in terms of how they relate to the Iranians. They know full well that forceful action of the Security Council is likely to create exactly the type of destabilizing regional behavior that they are trying to avoid. So that is obviously a disincentive for cooperation.

But I think you are right. And I think what you are beginning to see on the Russian street is that policy experts and policymakers there are beginning to understand that a threat of a nuclear-ready Iran will rebound to their detriment in a much more direct fashion than they predicted otherwise. So I am hopeful that the ability of us to push that dialogue bilaterally with the Russians is increasing, rather than decreasing.

I am less hopeful with the Chinese, for the simple reason that all politics is local. And if you look at what Iran is doing to the Chinese economy, it would be fair to say that Iran is the driving piston of the Chinese economy. The Chinese economy is expanding dramatically, in the neighborhood of 10 percent a year, and Iran is its second- or third-largest energy supplier.

So simply taking Iran off the table and not having a serious discussion with Beijing about ways to compensate, ways to discuss with them about energy partnership moving forward, seems somewhat of a non-starter. In the same way as if someone was to address us and ask us unilaterally to cease our reliance on Saudi Arabia. Although a very good idea, economically unworkable if we were to go cold turkey.

Mr. WILSON. And back again on Russia. It is so frustrating to me that, as we are developing our missile interceptor sites in Eastern Europe, these are obviously, whether they be in the Czech Republic or Poland, directed at Iran, not the Russian Federation. But it is so sad to me somehow they have perceived this as anti-Russian,

when again I would think that most of us are very hopeful about the emerging democracy of Russia, and that they would understand that this is not a slap at that.

Mr. BERMAN. Well, I actually think that they do. I think the public rhetoric that they are expressing is concern about interception about invalidation of the Russian strategic arsenal is more of an expression of discontent with the diminution of Russian political and economic prestige in Eastern Europe than anything else.

If you listen and talk to missile proliferation and missile defense experts in Moscow, you will hear pretty much the same thing that I have heard over the last couple of years; the Russians have looked at our program, our ground-based and theater missile defense program, and they are okay with it. Even with the European basing site.

What they are very concerned about is a space layer. And that is obviously not on the table at this point.

So I have to conclude that the type of rhetoric that is coming out of the Kremlin is designed to use the European leg of our missile defense program more as a political crutch to accomplish goals than anything else. I don't think it actually reflects real concern about invalidation of their arsenal.

Mr. WILSON. Thank you very much. Mr. Chairman.

Mr. SHERMAN. I get the feeling that those of us trying to put economic pressure on Iran are like throwing spitballs at a tank. We are angry at the tank; we realize the threat that it poses; all we have got is spitballs, so all we can do is throw spitballs at the tank and hope it will have some effect. And maybe we can dream that if we can convince others to help us, we can throw rocks at the tank. But even if we were able to throw rocks, I don't think that stops the tank.

I would like Mr. Albright, but others perhaps, to comment. Let us say we actually got an end to all subsidies to Iran, full enforcement of what used to be called the Iran-Libya Sanctions Act, no actual investment in Iran's oil fields, cash-and-carry for Iran. Given their interest in having nuclear weapons, would this level of throwing rocks at the tank be enough to get the tank to decide to go in reverse?

Mr. ALBRIGHT. It could be. The point of the sanctions isn't to stop directly the nuclear weapons program; it is to—

Mr. SHERMAN. It is to put pressure on the government. The thing is, if you have a government supported by a high oil price, and an ideology that has captured at least some of the population, and fanatically so, and you are able to cut 10 percent of their trade, reduce their GDP by 5 percent, would that be enough to persuade that government to renounce such an important goal as nuclear weapons? Especially when they are going to get there in just a few years, and then they can negotiate from that point and open themselves back up to trade.

Mr. ALBRIGHT. Well, I can't predict the future. I mean, what I can give is an example of South Africa, where it got pretty hairy. I mean, South Africa had sanctions put on it in—

Mr. SHERMAN. South Africa did more than give up its nuclear weapon program.

Mr. ALBRIGHT. I am sorry?

Mr. SHERMAN. South Africa really gave up its——

Mr. ALBRIGHT. But only after years of sanctions.

Mr. SHERMAN. Right.

Mr. ALBRIGHT. And I think that you have to be realistic about Iran. There is no magic bullet. But I would still say that pursuing that route has a much better chance of working than other routes.

Mr. SHERMAN. Yes. I mean, the other routes available to us are bombing when we don't know where to bomb, and acquiescing.

I would like the other panel members to comment, but particularly, is there an Achilles Heel where, if the rest of the world does something that it is possible to try to get the rest of the world to do, you are going to impact the lives of people in Tehran's streets? And the only thing I have heard voiced in this area is if we could prevent Iran from being able to import refined petroleum products. An ironic vulnerability for a major oil exporter to have.

Mr. LEVITT. For that reason, and I think maybe some of my former colleagues in government would disagree with me, that I included in my testimony the comment on shipping and the insurance industry for shipping. I think it is absolutely the case that smart sanctions at targeted financial measures can cause enough pain for the regime, and can follow up on the existing discontent on the street, where people really are angry.

The money is being spent on a WMD program. Money is being spent for Hezbollah, for example, whereas all of the economic promises that Ahmadinejad and others have made are not being kept. That is something that is a real force on the street.

And again, I go back to that World Bank Report. Unless the country moves quickly to a faster path of growth with employment, discontent and disenchantment could threaten its economic, social, and political system. That statement was made in 2003. We did nothing from 2003 until recently to try this. Now we are, and we are already seeing dividends.

Mr. SHERMAN. So you are talking, for example, of interfering with insurance for tankers going to Iran. Do you think that that would force them to sell their oil for a dollar a barrel cheaper? Or how much? Certainly there will be those happy to buy Iranian oil a few cents cheaper, if others won't.

Mr. LEVITT. There will always be someone who wants to step into the gap. But Under Secretary Levey's comment in Dubai to that effect was important. He said there may be some of you who will want to take advantage, see a business opportunity there. Let me be clear: You could be next. I think that is why it is so important to have important sanctions to go along with this, so that people who facilitate Iran's economic activity understand that they could be targeted. And I do think that they have a greater interest——

Mr. SHERMAN. So then are you talking about sanctions where the world wouldn't buy Iranian oil?

Mr. LEVITT. We are not going to get to that point. What we are going to get to is the point where individual companies are going to think long and hard. Do you want to do business with the United States, or do you want to do business with Iran? Iran has no anti-money-laundering controls. What do you tell your investors?

But long before we target the oil that they import, which I would caution against simply because, in the best of all circumstances, we will be able to focus on regime-hostile, people-friendly sanctions, long before then—that is something that could have a great impact, but long before then I think we could have a significant impact on the level of foreign investment in Iran. Without foreign investment, Iran cannot produce the oil that it charges so much money for.

Mr. SHERMAN. But if I am working in Tehran, and I can't get gasoline for my car, maybe I riot and bring down the government some time this decade. If I am working in Tehran, and I read in the newspaper that Total is not going to start work in 2011 on a project that might increase the oil revenues of my government by 2015, I am not sure my blood pressure rises at all.

Mr. LEVITT. Which is why, if I may—

Mr. SHERMAN. Are we focusing these sanctions on affecting the lives of people in the street? Or is the focus, you know, if I was just the average guy working in Tehran and I read that article about, say, Total not making an investment, my blood pressure might remain unchanged.

If I was part of the Iranian intelligentsia focused on the needs of my country, if I carried around in the back of my head the expected Iranian GDP of 2014 and realized the impact that this Total decision might have on that, then I might be disturbed.

Whose blood pressure are you trying to raise? The average Muhammed in the street? Or the small, the tiny percentage of the Iranian population that dreams of 5 percent GDP growth, compounded?

Mr. LEVITT. You are trying to affect both. You are trying to affect first those who are in the decision-making positions, which happens to be the elite. And then you want to affect the people on the street, who will have some impact on what those decision-makers decide, as well.

One of the things that is going on right now is people are saying, in some situations, we are not going to provide credits in the future. Well, your comment is exactly why that is insufficient. Something that is going to happen 5, 10, 15 years out is not going to have an impact. But we need people to start taking these actions now. I mean, you want to try and have actions where people will feel the impact.

And for example, if those lines of credit are cut and business dealings are cut now, and people lose their jobs, people can't buy oil at the extremely subsidized prices, we can put enough hurt on Iranians on the street that it will make them realize there is some discomfort without actually being hostile to them. Again, we don't want to change the calculus where right now Iranians themselves, the average Iranian, is pro-American.

Mr. SHERMAN. I think we are doing a great job of creating a policy for America to follow in 1999. The problem is, it is 2007. That is to say, I see an array of steps we could take now which might very well derail a program that was 10 years to completion.

But let me ask Mr. Levitt one more question, and then move on to Mr. Albright for a question, and then I will recognize my colleague.

Treasury has stopped dollar transactions by two major Iranian banks. Why not all of them?

Mr. LEVITT. Well, I have to be careful. I am no longer a Treasury official, and I don't speak for—

Mr. SHERMAN. All the better reason to ask you the question. I might get a real answer.

Mr. LEVITT. I understand, sir. I would simply put it this way.

First of all, as I said, we want these actions to be graduated. We want to be able to show the Iranians and the Europeans that we are not simply out to punish, we are out to try and change behavior, A.

B, this is largely a function of available intelligence. I was the Deputy Chief of Treasury's Intelligence shop, and so what people are doing is working very closely with the rest of the intelligence community to put together packages to fully identify what are the nature of the specific activities all these various entities are engaged in. And I think it is fair to say that neither Bank Saderat nor Bank Sepah, these are not the only banks that people are looking at.

Mr. SHERMAN. Well, all of the major Iranian banks, certainly all those engaging in dollar transactions, are critically important to moving the Iranian economy forward. If you are going to ban all banks that, in an effort to have an economic effect on Iran, you would ban them all.

If you only want to ban those banks that process transactions involved in buying dual-use material usable to the Iranian nuclear program, then you might limit yourself to those where you had actual intelligence.

I will ask Mr. Albright just one question, and then my time will be more than over. Do you believe that Iran currently has the capacity to produce all of the components necessary for the P-1 centrifuges and assemble them domestically? Or are they still reliant on a foreign supply? If they are reliant on a foreign supply, from whom are they getting what? Or at least likely to be getting what?

Moreover, U.N. Security Council Resolution 1737, is it broad enough to capture everything that Iran would need to keep its centrifuge program going? Is the so-called Bushehr program loophole in that resolution wide enough?

Mr. ALBRIGHT. Iran has a supply of components for P-1, probably several thousand in hand. It is hard to know the exact number.

They do, from our information, they do go out and seek things. I mean, valves. That has even been written about in the resolution. We have seen that many times, where trading companies are trying to acquire different types of valves from European suppliers. Sometimes in lots of, I saw one that was in a lot of 150,000.

And the P-1 has three fast-acting valves attached to it. I won't go into the technical details, but the cascades need a lot of valves. And my understanding is they can't make those themselves, along with other things. And so they are dependent on foreign supply.

The catch is that they have been at this a long time, and they have a certain amount stockpiled. And I think it is enough to put together several thousand centrifuges, which give them a nuclear weapons capability. But it is by no means enough to build these 50,000 centrifuges they want to build in Natanz.

In terms of the loophole, I don't see the Bushehr loophole as a loophole. I am disappointed. I mean, I was kind of frankly surprised, given everything that has gone on, that that was written in there. But I understand it was a price to get the Russians on board.

Now, suppliers are working better now. And I mean both in terms of companies, and then supplier countries, to try to limit Iran's acquisition of items. In fact, that is part of our involvement with some companies, is to discourage what we would call illicit nuclear trade, and those companies being hoodwinked. It is a very sophisticated set of operations that countries like Iran mount to get these items.

One of the advantages of the Security Council Resolution is it sends a message to other states that they should be doing more, particularly states where Iran may set up a trading company, and that don't have good export controls or knowledge of how illicit trade works. So I think in general, the Security Council Resolution is a net benefit to try and keep Iran from getting dual-use items.

But it is a cat-and-mouse game and you have got to keep at it. And it is not foolproof. So Iran is going to continue to successfully get some things, even though quite a few things are being stopped from getting to Iran.

Mr. SHERMAN. And the cautionary tale here is they may have enough for 3,000 centrifuges; they want, I think the figure you used was 50,000?

Mr. ALBRIGHT. They want 50,000. Which is enough, frankly is enough for a civil nuclear program. I see that as a civil nuclear program. It is ironic, maybe I should use the word it is tragic. You get the capability for a nuclear weapons program far before you get the capability for a civil nuclear energy program.

Mr. SHERMAN. Could be enough for a civil energy program, or enough for a whole lot of bombs. With that, I yield to the gentleman from South Carolina.

Mr. WILSON. Thank you, Mr. Chairman. And Mr. Byman, I was intrigued in your testimony. You state that Iran has been more helpful than harmful in advancing the cause of stability of democracy in Iraq. In contravention of that, they obviously have been providing upgraded IEDs.

Although what you say really should maybe in their interests be a stable Iraq. And so how do you explain, and how do you explain the providing of upgraded IEDs?

Mr. BYMAN. Iran has multiple interests in Iraq, some of which are in harmony with the United States, some of which are not.

The system of government the United States has put in in Iraq is as close to Tehran's dream as Tehran could realistically expect. So not—

Mr. WILSON. The majority rules.

Mr. BYMAN [continuing]. Surprisingly, they urge their various proxies to cooperate with the United States in a variety of ways politically.

At the same time, Iran recognizes that street power, local power, violent power is what is going to matter in Iraq, what matters in Iraq today, and what is going to matter in Iraq in the future. And in their views, the United States are the tourists there.

We are there, maybe we will stay for 18 months, maybe we will stay for 5 years. But we will be gone. And when the United States is gone, Iran needs power on the ground. And power on the ground entails having lots of proxies, not just Shi'a, but also Kurdish, and, I don't have evidence for this, but I would be surprised if Iran hasn't at least tried to reach out tactically to some of the Sunni jihadists who hate Iran. And it wants influence, and it wants options.

And the model I think Iran has in mind is what it did in Lebanon, where it was there, and it worked at a grass-roots level, creating parties, creating organizations, social work, and so on. And very, very effectively, unfortunately for the United States.

And so in Iran and Iraq, because the system we put in is one that actually accords with Iran's interests, there is a degree of harmony. But at the same time, Iran's long-term vision is that it needs power on the ground. And in so doing, it is undermining central authority, and undermining the power of the government. And that hurts the United States. And I am not surprised at all that some of the groups Iran is working with are violently anti-American, and Iran is okay with that.

And I will add that Iran has a mixed view of the United States. It certainly recognizes that the United States is fighting to protect a government that is relatively pro-Iranian. But at the same time, Iran fears the United States, suspects the United States, and dislikes the United States. So it is happy to see the U.S.' nose bloodied, and it is happy to see problems for the United States, as well. And yes, there are contradictions in there, but Iraq is probably the overwhelming policy issue for Iran today. And it is not surprising to me that for a big issue, you have some policy contradictions.

Mr. WILSON. Wouldn't another contradiction be their support for Hezbollah and clearly identified terrorist organizations?

Mr. BYMAN. From Iran's point of view, Hezbollah has been a remarkable success. That not only does Iran have a strong ideological sense of brotherhood with Hezbollah, which really should not be underestimated; but also, Hezbollah has proven proxy for Iran in Lebanon, and in particular against Israel. And in part because of Hezbollah attacks in the 1990s or support for Palestinian groups, it was harder to have an Israeli-Palestinian peace, which, from Tehran's point of view, was a policy success.

So unfortunately, Tehran has learned a lesson, which is support for terrorism works.

Mr. WILSON. Which is an extraordinary threat to the United States and its allies.

Mr. BYMAN. Absolutely.

Mr. WILSON. And Mr. Albright, you were discussing the nuclear capabilities. Are you knowledgeable, or any of you who may want to respond, in regard to delivery systems, in regard to missiles? Their range, their accuracy?

Mr. ALBRIGHT. I am not an expert in missiles, but I think it is well known that Iran's delivery system of choice would probably be a Shahab-3 missile. Its range depends on its payload. Certainly Israel is within sights.

Mr. WILSON. And southeastern Europe.

Mr. ALBRIGHT. And I am sure that eventually they will be able to deliver some kind of warhead into Europe. From what I understand, they are certainly working in that direction.

The catch for them is can they put a nuclear warhead on that kind of missile. And I think that is still an open question. Very little is known about their nuclear weaponization program, as we would call it.

And I mentioned this earlier. This question also adds urgency to knowing what Khan provided, because it could be that Khan provided more advanced nuclear warhead designs than have been admitted to. And so that question remains open and needs an answer.

Mr. WILSON. Thank you very much.

Mr. SHERMAN. Thank you. I will recognize the gentleman from Colorado.

Mr. TANCREDO. Thank you, Mr. Chairman. And I apologize; my questions certainly may be redundant because I was not here for much of the hearing. So I apologize in advance for this.

But name a single country in the world, really, that would benefit as a result of Iran obtaining a nuclear weapon. I mean, maybe, I don't know, North Korea or something. But what country in the world would possibly be happy about that, would be okay with the idea of Iran becoming a nuclear power?

Mr. BYMAN. Sir, I think there are two different questions. I can't think of a country that would be happy about it, but I can think of a number of countries that frankly don't care that much. And those are the problem.

Mr. TANCREDO. All right. Let us talk about the ones that certainly would have an interest in this, especially those in what we would call the Sunni Crescent. This is their desire to maintain that crescent, and not have a Shi'a full moon there, all right?

So you have got countries in the area that certainly it is not in their best interests. And the question in my mind is whether they will accommodate, you know, in the absence of the United States from the area itself; will they simply accommodate Iran and just try to live with it, no matter what Iran does? Or will they actively participate in some scheme or other that would work to overthrow the regime, or at least do what they can to stop them from acquiring nuclear weaponry? The countries right in the region that actually have the most to fear.

Mr. BYMAN. I think that, as you said, they have the most to fear and they are tremendously concerned. Their sense of influence over Tehran is extremely limited. The Saudis, by Saudi standards, have been relatively proactive. It is a rather low bar, but nevertheless, they have been trying to forge a consensus against Iran. But in their eyes, there isn't much that they can do.

And they have looked to the United States, I would say in a conflicted way. They want U.S. leadership, but frankly, they are concerned that the United States will stir the pot too much and create tension from which they will suffer.

And a number of our allies in the region to me have a very bad track record of looking ahead; that they will wring their hands, but not have been able to more consistently—and I would like to see more Saudi support, more Gulf State support with our European

allies for our bilateral diplomacy. And to my knowledge at least, that has been rather limited.

Mr. TANCREDO. Sir.

Mr. BERMAN. Congressman, thank you. I would only amplify for just a few seconds. I would say that the impact of Iran's quest for nuclear capability is having a twofold effect on the region, on the Sunni Crescent that you mentioned.

One is actually very positive. One is that there are a number of countries that are beginning to discuss more and more cooperation amongst themselves, and greater strategic reliance on the United States. But I think that trend, although it is positive, is outweighed by the negative trend, which is that there are a number of countries that are beginning to seek accommodation with the Islamic Republic.

Over the last 5 years or so we have had an unprecedented deployment of political capital, economic capital, and military personnel into the region in support of the War on Terror and the war in Iraq. But during that same period, we have seen countries like Kuwait, like Oman, even like Saudi Arabia, sign bilateral security deals with the Islamic Republic.

And so the trend here I think is very clear. There are countries that, while they are nervous about a nuclear Iran or a nearly nuclear Iran, have no confidence that we are in it for the long haul. And so what they are doing is they are trying to create a modus vivendi with Iran, with sort of the new regional hegemon, to hedge against the day that we are gone; that the American interest is gone, that the American personnel are gone.

And what that does, in a very practical sense over the next several years, is it makes the Persian Gulf, which is already a very inhospitable region, less and less friendly to United States interests while we are still there.

Mr. TANCREDO. Okay. But isn't the enmity that exists within Islam itself in these various schisms—the Shi'a, Sunni, and there are others, of course, that exist—isn't the enmity so great that how does one accommodate that? Aren't they always going to be concerned about the fact that the ultimate desire of the other party—in this case, Iran—would be to eliminate, to destroy Sunnis? And therefore, there is no way. You are going to have to figure out a way to change the regime.

Mr. BERMAN. Well, no, I think that is correct. And I would say that the trend that is emerging in the Sunni parts of the Gulf, it is very troubling to me. Because you are seeing, again, two things.

You are seeing this sense of increased accommodation of the Islamic Republic on the part of some, at least some countries in the Persian Gulf. What you are also beginning to see is that because a rising tide lifts all boats, we are seeing a wave of empowerment sweep over Shi'a communities in places like Bahrain, in places like Saudi Arabia.

And what I suspect is going to happen is—and permit me just a little bit of predictive analysis—because the region is dominated by overwhelmingly authoritarian or quasi-totalitarian states, these regimes tend to react to challenges to their rule in predictable ways. So what we are going to see is an increasingly unfree region moving forward, as these countries feel the need to crack down on

the religious minorities within their own borders, to prevent Iran from exploiting those assets.

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

Mr. SHERMAN. If our witnesses will endure, we will go through one more round of questioning. We will conclude this hearing roughly at 4 o'clock.

Mr. Berman, we are trying to get Russia to be on our side on this. We are getting U.N. sanctions and it is wonderful that they are under Chapter 7, but they don't say much.

The Russians seem to be convinced that what they do in the Security Council vis-a-vis Iran, what they do vis-a-vis Iran elsewhere, has no connection with what American policy will be toward missile defense bases in the Czech Republic and Poland, toward NATO expansion, toward Acazia, Moldova, the routing of pipelines to carry Caspian oil.

First of all, do the Russians think that what they do vis-a-vis Iran will have no impact on American policy in these other areas? And second, are they right?

Mr. BERMAN. Well, I know that this is an area that is of particular interest to both of us, so let me be brief, at the risk of repeating myself. I think that is exactly the question.

I would say that that is mostly their calculus. What we have demonstrated to them, unfortunately, over the last 3 years is that we are very heavy on the rhetoric, far less heavy on the implementation. We spend a lot of time talking about anti-democratic drift in Russia, and not much time actually doing things about it.

I would argue for a much more pragmatic approach to the equation. The Russians have a few red lines, if you would call them that, when it comes to United States policy. They are concerned about missile defense certainly, but they are much more concerned, for example, about a United States hand in what they call "color revolutions" in the post-Soviet space. This is something that we have been accused of fomenting in places like Kyrzygstan and other places, when in fact only in Ukraine, I would say, has there really been an overt American hand.

An argument that says to the Russians: "Yes, I understand that you are concerned about this, we are not in the business of doing this. However, our stance toward these revolutions is dependent entirely upon how constructive you are in other fields." I think this would go a long way.

You need to have a discussion with them about some sort of security arrangement in the post-Soviet space that protects their interests. But you also need to demonstrate to them that the status quo is not impenetrable.

Mr. SHERMAN. Yes. There is a natural avoidance among diplomats in any kind of direct quid pro quo, but anything that is just kind of vague takes years to accomplish, as you do something vague, then I do something vague, then you do something vague. And eventually you move forward.

Again, I wish these hearings were being held in 1999. Likewise, the Chinese seem to believe that their access to United States markets will be, you know, unimpaired in any way, regardless of what they do, vis-a-vis Iran. Is this what they believe, and are they

right? I will ask either Mr. Berman or anyone else with a strong opinion.

Mr. BERMAN. Let me just tackle this for 1 second. I think that is what they believe, and I do think largely they are correct. If you noticed, over the last 2½ months, at least two Chinese companies—CNOOC, the China National Offshore Oil Corporation, and PetroChina, which is a subsidiary of CNPC—have signed deals in excess of \$100 billion with Iran for the next 25 years.

Mr. SHERMAN. Of course, our policy in enforcing—we have a President of the United States, and the last one too, who took oaths of office to uphold the laws of the United States. Yet their position is that the Iran Sanctions Act doesn't apply unless they get an official notice from the Government of Iran that the investment is being made. And so I would call upon Tehran to help the U.S. Government carry out its laws, or for Presidents to adhere to their oath of office, as both this one and the last one did not.

I would say to you that you are not going to stop that tank by throwing spitballs. And if we, as a country, can't think through how we are going to deal with Russia and China on other issues, we are not going to change Russian and Chinese policy.

And I will ask unanimous consent to put my opening statement into the record, which I didn't get a chance to deliver because of votes in Judiciary, and yield to the gentleman from Colorado.

[The prepared statement of Mr. Sherman follows:]

PREPARED STATEMENT OF THE HONORABLE BRAD SHERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

In mid-2002 an Iranian opposition group held a press conference revealing the existence of a covert effort to produce enriched uranium, including the now infamous Natanz Pilot Enrichment Plant and the planned industrial-scale facility for 50,000 centrifuges to be built underground at that site. Subsequent to these revelations we learned many more details about a concerted Iranian nuclear program that had gone unreported for nearly two decades.

Iran had no operational nuclear power plants at that time. Nuclear fuel is relatively cheap and readily available from international suppliers. The Russians, who were actually building the only Iranian nuclear power plant under construction, would surely supply the fuel needed for that and future plants.

The effort to enrich uranium, in the words of one expert, made about as much economic sense as building a slaughterhouse because you will one day want a sandwich. Even if you buy the argument that oil and gas-rich Iran needs nuclear power, the only explanation for enrichment of uranium is a desire to develop the means to construct the most awesome weapons known to man.

The number one state sponsor of terrorism is trying to gain nuclear weapons. In September of 2005, we were able to achieve the referral of Iran to the U.N. Security Council, finally. *It took more than three years just to get the Iranians in the dock in the Security Council.* And we celebrated that.

Just over one year later, in December of 2006, nearly four and one half years after the Iranians were caught red-handed with a covert program to develop nuclear weapons, the world finally took the basic step of cutting off nuclear-relevant commerce with Iran. That is what our State Department has achieved—nothing more, nothing less.

Given another four years, we may finally get the ban on international travel by regime officials that has been discussed at the Security Council. Amadinejad will not be allowed to visit Disneyland. A follow-on round of sanctions will hopefully go so far as to ban him from Magic Mountain, too.

You will hear testimony from one of the most respected nuclear experts today. He is not a man known, I believe, for making rash predictions. Iran is currently in the process of installing a 3,000-centrifuge module at Natanz. However unrealistic it is for them to reach their own May 2007 deadline to bring this module into operation, our witness believes that Iran could need only a year or two to bring the module

on-line with a capability of producing HEU. Once that is accomplished, if they choose to do so, the Iranians could have enough highly enriched uranium for a nuclear bomb in 1/2-to-one year's time.

Of course, Iran will not stop at 3,000 centrifuges. It will continue to build more and install more.

There are two clocks running down. One is the countdown to the Iranian bomb, or more accurately, the countdown to Iran being able to enrich uranium at a scale that will allow Tehran to go nuclear in a matter of months. That clock is moving, and the time is running out. Suffice it to say that predictions for Iran "going nuclear" only after several years, or even a decade, are overly optimistic. We probably have precious little time to convince the Iranians to abandon a nuclear weapons program.

The other clock is at the Security Council, where the lowest common denominator will prevail. Progress there is glacial, and, notwithstanding the continued Iranian defiance, we will be lucky to get much of anything soon. Anything meaningful seems impossible in the current round of sanctions discussions.

I am afraid the first clock will run before the last unless some very radical changes are made now. Iran must be given a very stark choice—maximum carrots on one hand, and maximum sticks on the other. We will need a program of tough sanctions to go along with inducements, if we are to succeed in convincing Iran to abandon its drive for nuclear weapons. In order to achieve these, we must act now and make several changes to our policies.

The first is to re-order our relations with Russia and China. These countries are the key for a multilateral approach at the Security Council. We will have to compromise on a number of lesser objectives in order to achieve greater cooperation from Russia and China.

With Russia, our concerns over such issues as Moscow's "near abroad" policy, over energy routes, over missile defense, will have to be subordinated to the need for Russian cooperation on Iran. The Chinese need to understand that our trade relationship with them is not sacrosanct, and that they will suffer if Chinese economic relations with Iran flourish while Tehran thumbs its nose at the world.

Next, we need to adopt tougher unilateral sanctions, and adopt policies that will encourage other countries to curtail their business relationship with Iran until Tehran has given up trying to develop nuclear weapons. I am a proud cosponsor of H.R. 1400, the Iran Counter-Proliferation Act.

This legislation would amend the Iran Sanctions Act by removing the Presidential waiver on sanctions against foreign firms that help develop Iran's energy sector. The legislation will hopefully make it impossible for the Administration to ignore the statute any longer. This legislation would also ban all imports from Iran, and it would severely restrict our exports to Iran.

H.R. 1400 would prevent the foreign subsidiaries of US corporations from doing business in Iran. U.S. subsidiaries of foreign oil companies that invest in Iran's oil sector would not receive U.S. tax benefits for oil and gas exploration. The bill would prevent nuclear cooperation between the United States and any country that provides nuclear assistance to Iran. H.R.1400 would withhold funds from the World Bank in proportion to any amounts provided to Iran.

Soon, I will join with Congressman Barney Frank in introducing legislation that will further press the Iranian regime economically. Hundreds of foreign corporations do business with Iran, several in the strategic energy sector. It is time that American investors in these firms were made aware of these activities. The legislation will require that the government "name and shame" these firms, that pension and mutual fund managers disclose to their investors the firms in their portfolio doing business in Iran, and require that the federal TSP program divest from such companies. It will ensure that fiduciaries who divest from these companies can never be accused of breaching their duties to beneficiaries.

One of our witnesses today, Mathew Levitt, just finished a stint at the Treasury Department. He will tell us about the successes that Treasury has enjoyed in targeting the financial sector to further isolate Iran. I commend him for his work there and look forward to hearing his testimony. I will add that our efforts on the financial front have to be redoubled and complimented with legislative efforts like those I just described if we are to be successful.

Finally, I want to address the arguments of those who believe that we should learn to live with a nuclear Iran, and that we need not fear it. Those that say that a nuclear Iran can be contained; that it can be engaged; that Tehran is rational and wants only deterrence from its nuclear program.

A nuclear Iran will be a disaster not only for American security, but for the nuclear nonproliferation regime, which already teeters on the edge.

An atomic Iran will require us to go eyeball-to-eyeball with a nuclear-armed adversary during every crisis in the Middle East. And those will become more frequent, because Iran may start them, believing it has a false impunity through its possession of the bomb. Iran may appear to act rationally, but it has a messianic streak as well. What it may do on the way out, should the regime falter, is totally unpredictable. The Islamic Republic may some day fall, and it could try to go out with a bang.

We can prevent this. If we act now.

Mr. TANCREDO. Thank you, Mr. Chairman, and I do have just one last thing.

There are organizations, of course, that are part of the Iranian diaspora that we hear from time to time, and I read a great deal about in terms of what services they have provided to the United States. I am speaking specifically of the MEK. I know that their background is, shall we say spotty, and that there is a lot of concern about whether it is a cultive personality and the nature of the organization, all that sort of thing.

But my greatest I guess quest here is to try to determine whether or not they can be of help to us. I don't care what they looked like 35 years ago. I want to know whether or not they can be helpful to us today, and whether or not all the stuff that I read in terms of the generals who were in charge of Camp Ashraf, for instance, who have written letters saying these people are great, the FBI and the State Department has interviewed every single person in the camp and said nothing to worry about here, these are certainly not terrorists, yet they are on the terrorist watch list; they got there apparently because there was some desire to placate the regime, and this was during the last administration.

I just want to know, can these people be used for our purposes? They know the language, they know the culture. They have apparently given us good information, at least that is what we are told, with regard to the nuclear facilities in Iran, identifying them, and a number of other things.

I am trying to separate out fact from fiction in this whole thing, and determine whether or not there is any opportunity.

Mr. BYMAN. Sir, I will give you my opinion, and others on the panel may have quite a different one.

The MEK has at times produced extremely valuable intelligence that the United States has used. There is no question about that, especially the revelations about the extent of the Iranian nuclear program that helped trigger much more scrutiny.

That said, I believe there is an extremely heavy cost to U.S. cooperation with the MEK. We have to remember this is a regime that set up shop in Saddam's Iraq. This is the sort of group we are talking about. The Intelligence community once referred to them as they would be the muggers in Beirut.

And the point I would like to make is that this alienates many ordinary Iranians who see this group as having betrayed them fundamentally by allying with Saddam against Iran during the Iran-Iraq War. This group has carried out numerous terrorist attacks—they are fairly well documented—also supported attacks years ago against the United States. And we are trying to go around the world to say to people even though al-Qaeda or another group isn't directly killing your citizens, you should not support or allow them to do activities because it is wrong fundamentally.

And my view is that even though the MEK is not currently targeting the United States and has some tactical values, for us to have them legitimacy, we need to make sure that we are not co-operating with a group we have designated as a terrorist group.

Mr. TANCREDO. Well, let me ask you this. There seems to be an enormous amount of concern on the part of the regime about that possibility. I mean, apparently the Mullahs hate the MEK with a passion that is unbridled, certainly in the stuff they say.

You know, I keep thinking to myself, if that is the case, if they really are that worried about these people, it may not be the worst thing in the world to at least use whatever leverage we can by saying well, this is a possibility. Unless Tehran, if we wanted to use it as a way to make them move away, for instance, from a nuclear program. Is there anything we can do?

Maybe we can't talk about it in this kind of a setting. That is one thing that is possible. I mean, there are certainly covert operations that may have to be undertaken, and that we can't discuss. But I am just thinking that if they despise them as much as they do, if they fear them as much as they do, if the Mullahs fear the MEK as much as they appear to, there is something there we should be able to take advantage of. I am just hoping.

All right, well, thank you. Anybody else is welcome.

Mr. LEVITT. I will just say that I echo Dr. Byman's position completely. They have provided some very useful information. And I think that by meeting with them and getting that information, we have sent the message that I think you are talking about to Iran already.

I would be very, very, very wary and concerned of a reaching out to a group like that. It undermines our position when we tell the world they need to ban Hamas, ban Hezbollah, even though they are not, Hamas in particular, targeting us today.

The State Department needs to verify every few years the groups that are on the foreign terrorist organization list remain active. And if they can't do that, then this body will have reason to remove them. But until that point, we may not like Iran, but if the MEK has bombed and it has Iranian civilians, then I consider them the terrorist group that we shouldn't be hugging.

Mr. ALBRIGHT. Let me add one thing. I think their information has become much less credible over the last couple of years. And I think it is due to the fact that they do have a very heavy agenda.

Mr. TANCREDO. A very heavy?

Mr. ALBRIGHT. Heavy agenda. And so for example, they have claimed that Pakistan sold highly enriched uranium to Iran. There is no basis for that claim. They have claimed that there are all kinds of enrichment plants. There has been no evidence to support that either.

They certainly, in the early years, identified nuclear facilities. I mean, they misidentified Natanz, so their intelligence isn't by any means perfect. They called it a fuel fabrication plant. Their importance was that they identified two secret nuclear sites, and that started a chain of events. And I would never want to underplay the importance of that.

But I know we have, in fact, used their information from the start. And we have found that particularly in the last couple years,

that it has largely been unusable, and often just flat-out wrong, when you check it out. And driven by an agenda, that is they want the regime in Iran changed. And it has made us feel that we can no longer trust what they put out.

Mr. TANCREDO. Yes, well, that is true that that is their agenda. And they tell you they want a secular, I mean, non-sectarian, democratic Iraq. I don't know. But anyway, thank you very much, gentlemen, for your observations.

Mr. SHERMAN. I have got a few questions about Iranian politics, the first of which will build on the gentleman from Colorado's comment. We know full well that those who rule Iran, and perhaps many who don't, really, really hate the MEK.

The question is: Do they fear them? Benedict Arnold, had he landed on our soil, you know, brought back by the British right before the War of 1812, he would not have had much of a positive effect on British objectives. We really hated him, but he didn't have a following here in the United States that American patriots had anything to worry about.

Does the MEK have a following? Is there any reason that the Mullahs would fear them, or would they just hate them?

Mr. BYMAN. There is a hatred that goes back because the MEK has done——

Mr. SHERMAN. I know about the hatred. Tell me about the fear.

Mr. BYMAN. Well, the hatred is also, I want to say, at a regime level, very specific, because a lot of regime figures were killed by this group in successful attacks. But that hatred doesn't correspond with the fear any more.

When the MEK set up shop in Iraq, they lost what limited base they had in Iran itself. So this is more resentment, anger, but not fear.

Mr. SHERMAN. Okay. Now let us move on. We can debate whether it is a good idea to use the military option. The question is: Is there any reason to take it off the table by legislation, when the Iranian body politic tries to decide whether to cut a deal or whether to continue with its nuclear program. Do they have a genuine concern of an American military attack? And do they view the possibility of a U.S. bombing attack as a positive or a negative?

Mr. BERMAN. For my money, it is impossible to conduct robust coercive diplomacy while taking an element such as military action off the table.

In other words, there has to be a credible threat that something will happen if the negotiations break down in order to force people to participate in the negotiations.

Mr. SHERMAN. And on the other hand, if you threaten the rabbit by throwing him into the briar patch, you don't have much of a threat at all.

Mr. Albright, is an American bombing attack something that the Ahmadinejads of the world wish to avoid? Might even negotiate in order to avoid? Or is it something that they would actually be looking for? Keeping in mind it is unlikely to be followed up with a ground attack.

Mr. ALBRIGHT. Yes, I don't think they are that worried about it. I think it has been overplayed. I would say take it off the table.

It can always be brought back, but I think it has just been overplayed.

Mr. SHERMAN. Well, we in Congress, once we take something off, it takes an Act of Congress to put it back on.

Mr. ALBRIGHT. Well, it would be taken on or off by the President, not by legislation.

Mr. SHERMAN. Welcome to the Capitol, where others have different views.

Mr. ALBRIGHT. Yes. Well, but anyway, let me just finish the point. Because it has come up since 2002.

I remember when we released satellite imagery of the Natanz site back in December 2002. We were the first ones to do it. We were actually the first ones to correctly identify publicly that Natanz was a gas centrifuge plant.

We did it in conjunction with CNN. CNN went to a senior administration official's office and said, "What are your comments; this is a serious problem? Iran will not let the IAEA come in and look at this site; what are you going to do?" They said, "Well, when we get to Baghdad, we are turning right."

And so we saw—and then if you just follow through that, what we see—

Mr. SHERMAN. Well, it is really clear that Tehran feared America far more before we got to Baghdad than 6 months—

Mr. ALBRIGHT. Than after, that is right.

Mr. SHERMAN [continuing]. After we got to Baghdad.

Mr. ALBRIGHT. But it has continued to be put out there. And what I have witnessed, in following this issue and following Iran, is that it has led to a nationalist call in Iran that has actually backfired on us.

And so I think that the military option is too often put on the table, and put in the Iranians' face, and it has backfired. And I think the administration should simply withdraw from mentioning it for some period of time.

Mr. SHERMAN. Well, I point out that, I may not know that much about Iranian politics, but it may be the only thing that gets us any support in Europe. If you are asking Europe to forgo economically advantageous relationships, perhaps the only argument you have is you better do this, or Cheney is going to take over and bomb Iran, and you don't want us to do that, do you.

Mr. ALBRIGHT. Yes, but against the opinion of the American public and military leaders. So I think it is not credible.

Mr. SHERMAN. I think there is a play, at least one Web site where you could bet on whether or not this administration is going to bomb Iran—

Mr. ALBRIGHT. That is right.

Mr. SHERMAN. And I wouldn't, if you are given a chance to bet, don't bet against unless you get odds. No one has ever made money betting against the aggressiveness of our current President.

At this point, I will ask whether there are any round-up comments by any of the witnesses, and then we will adjourn.

Mr. BERMAN. I would only make a comment to round out your previous question about whether or not there are segments of the Iranian leadership that actually are looking for military conflict. That is a very good question.

Because up until the summer of 2005, the political lay of the land in Tehran was essentially known. The President was an empty office, the supreme leader was in charge, unquestionably in charge, and all decisions flowed from that structure.

I think what we have seen now is today, the supreme leader is still in charge; Ali Khamenei is still in charge. But what I have seen, what I witnessed sort of in following this is that over the last year or so, Iran's President, Ahmadinejad, has emerged as a foreign policy actor in his own right: So much so that there are elements within the regime, such as the pragmatists led by Ali Akbar Hashemi Rafsanjani, that have chosen to expand their power as a check to his.

So what I think that they are concerned about—

Mr. SHERMAN. But politicians don't need an excuse to seek to expand their power, but go ahead.

Mr. BERMAN. What I think they are concerned about, and certainly we should be concerned about, is that streak, that apocalyptic millennial streak that we see when Ahmadinejad gives his public speeches. Not only for consumption in the West, but for domestic consumption, when he talks about hastening the coming of the 12th Imam, the hidden Imam, the Mahdi; and about the need, the overriding religious need for a nuclear capability.

That is not a formula for stability. In fact, it would suggest strongly that that segment of the population, the "war generation" that grew up during the Iran-Iraq War, is interested in a more confrontational attitude, possibly including provoking or precipitating an attack, comforted by the knowledge that our intelligence, in terms of being able to denuclearize them, is incomplete.

Mr. SHERMAN. I will ask the other panelists just to respond to this one last question. The thinking here is that you make Ahmadinejad more powerful if you bomb the nuclear facilities in Iran. Do you think that would be the case? Or do you think that they would say look, you pushed too far and unnecessarily, in a way that was harmful to us?

Mr. BYMAN. In my judgment, under current conditions, it would make him more popular, and in the short term at least, make him more—

Mr. SHERMAN. Short term.

Mr. LEVITT. I agree. And as I said in my statement, I think that a military option would unite the Iranian people against us. I think that having the military option is still credible, however, in terms of—not that I am saying, as I said in my statement, I think that it is the absolute last resort. But you want to maintain an option, whether it is to strike an IRGC facility or something else.

And I think that we have seen benefits of having carriers in the region.

Mr. SHERMAN. Gentlemen, you have shown incredible patience. You have dealt with votes on the floor, votes in committee, other distractions. Thank you very much for donating your afternoon to the United States Government.

[Whereupon, at 4:08 p.m., the subcommittees were adjourned.]