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PROGRESS OF THE OBAMA ADMINISTRATION'S POLICY TOWARD IRAN

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE AND FOREIGN OPERATIONS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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PROGRESS OF THE OBAMA ADMINISTRATION'S POLICY TOWARD IRAN

TUESDAY, NOVEMBER 15, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE AND FOREIGN OPERATIONS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:03 a.m., in room 2247, Rayburn House Office Building, Hon. Jason Chaffetz (chairman of the subcommittee) presiding.

Present: Representatives Chaffetz, Issa, Tierney, Cummings, Welch, and Quigley.

Staff present: Thomas A. Alexander, senior counsel; Brien A. Beattie, professional staff member; Molly Boyl, parliamentarian; Mark D. Marin, director of oversight; Rafael Maryahin, counsel; Nadia A. Zahran, staff assistant; Jaron Bourke, minority director of administration; Ashley Etienne, minority director of communications; Paul Kincaid, minority press secretary; Adam Koshkin, minority staff assistant; and Scott Lindsay and Carlos Uriarte, minority counsels.

Mr. CHAFFETZ. Good morning. The committee will come to order.

I would like to begin this hearing by stating the Oversight Committee's mission statement.

We exist to secure two fundamental principles: First, Americans have the right to know that the money Washington takes from them is well spent; and, second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold government accountable to taxpayers because taxpayers have a right to know what they get from their government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission statement of the Oversight and Government Reform Committee.

Appreciate everyone being here this morning. And I would like to welcome Ranking Member Tierney and members of the subcommittee and the people joining us in the audience and on television.

The hearing today is "Progress of the Obama Administration's Policy Toward Iran." Today's proceedings will examine whether the President's strategy is effectively deterring Iran's nuclear program and bringing an end to human-rights abuses there.

During his campaign for the Presidency, President Obama promised that his administration would pursue an aggressive strategy to end Iran's nuclear program. In his "Blueprint for Change," he stated that the Obama administration would, "use aggressive and direct diplomacy to prevent an Iranian regime from developing a nuclear program. It will put an end to the failed policy that has let Iran develop its nuclear program and strengthen its position in the region, and present the Iranian regime with a clear choice: end your nuclear program, support for terror, and threats toward Israel or face increased U.S. and multilateral pressure."

In his inaugural address, President Obama reiterated his preference for open diplomacy and the use of soft power by saying, "To those who cling to power through corruption and deceit and the silencing of dissent, know that you are on the wrong side of history but that we will extend a hand if you are willing to unclench your fist."

After a year and a half in office, the administration began applying new pressure to Iran's leadership. In July 2010, President Obama signed into law the Comprehensive Iran Sanctions Accountability and Divestment Act [CISADA]. It expanded the U.S. Government's authority to target Iran's energy and financial sectors. It targeted those who commit human-rights abuses. To date, the U.S. Government has imposed sanctions on 10 companies for violations of this act.

Through the sanctions and other frameworks, has the United States inflicted economic hardship on Iran? Is this enough? Is that pressure being applied in the right way? If the goal is to prevent Iran from obtaining a nuclear weapon, then apparently not.

Just last week, the IAEA released their report indicating that Iran has taken actions consistent with the manufacturing of a nuclear weapon. The IAEA report stated the following: "The agency has serious concerns regarding possible military dimensions to Iran's nuclear program. After assessing carefully and critically the extensive information available to it, the Agency finds the information to be, overall, credible. The information indicates that Iran has carried out activities relevant to the development of a nuclear explosive device."

Iran remains undeterred despite the various sanctions and U.N. Security Council resolutions imposed against it. In fact, Iran's rhetoric is more reckless than ever, especially toward Israel. In sum, the aggressive and direct diplomacy against Iran's nuclear program doesn't seem to be working very well.

What is the new plan? Is the administration pursuing another strategy, or is it standing behind the current failed approach? I look forward to hearing from our government witnesses about whether the administration is revising its approach.

A nuclear-armed Iran is an unacceptable outcome for the United States and its allies. Unfortunately, Iran's destructive behavior is not limited to its nuclear program. Over the years, they have been known to provide material support to militias in Iraq. Its covert war against the United States is designed to bring instability to Iraq and the region. Fortunately, our military has been a protective force and has been a significant deterrent. It remains to be seen

how that may change after military withdrawal on December 31st of this year.

Will the State Department be prepared to defeat direct or indirect military action by Iran? Will Secretary Clinton's army of private contractors be able to protect the 16,500 personnel under her care? I look forward to hearing from our witnesses about the extent of the threat and how the administration plans to confront it.

Before I recognize the ranking member, I would like to note the absence of senior policymakers from the State Department, Defense Department, and the Treasury Department. I extended invitations to Deputy Secretaries of those agencies, but they declined to make time in their schedule and appear today. The Under Secretaries of those agencies were invited, but they are either busy or away from the office.

I find it inexcusable that we continue to be rebuffed by the administration for providing the witnesses most pertinent to these types of hearings. It is imperative that they show up before these hearings, and yet there is a continued pattern here that is just unacceptable to the American people and to this committee. I find it inexcusable.

The issues surrounding Iran are complex. The solutions are difficult and dynamic. There is no excuse to hide from oversight. Senior policymakers should be here to answer questions about the President's strategy, and taxpayers deserve nothing less than a full accounting for their investment in these programs. I look forward to hearing from our witnesses.

I will also add, it was our initial request to have the Members all appear on one panel so we could have a candid discussion and it would be a better use of Members' time and, I think, a better discussion for the American people. The administration refused to sit next to people who weren't in the government, and so, consequently, they have elected to be on a separate panel. We will hear from them after, on panel number two.

I would now like to recognize the distinguished ranking member, the gentleman from Massachusetts, Mr. Tierney, for his opening statement.

Mr. TIERNEY. Thank you, Mr. Chairman.

And thank all of our witnesses for being here today. We appreciate the advice and insight that you will provide for the committee.

You know, the United States obviously has a difficult relationship with Iran, and it has faced some significant new strains in that relationship just in the past month. On October 11, 2011, the Department of Justice indicted an Iranian-American for allegedly attempting to orchestrate the assassination of the Saudi Ambassador to the United States on American soil. Just last week, the International Atomic Energy Agency [IAEA], released a report making the case that, over the past 10 years, "Iran has carried out activities relevant to the development of a nuclear explosive device."

How we respond to such threats to our national interest, the security of Israel, and the stability of the Middle East is a major question. Some have called on the United States to punish Iran through harsher sanctions.

I do want to point out that President Obama made comments during his election that he would make efforts to reach out to the Iranian people and their government to try to work out some solution to the problems that existed there. He made extraordinary efforts to reach out. They were rebuffed. And I think the only good thing that came of that, obviously, was that the rest of the international community understood that this President was at least making a good-faith effort and this country was making a good-faith effort. And that international community, and with our allies, have worked with the President to put in more effective sanctions since that point in time than any previous administration has put in place.

So I agree that we have to continue the pressure on Iran's leaders, and we have to get them to comply with their treaty obligations, and we also have to be sure to weigh all the consequences of those sanctions. These are serious matters.

International sanctions should be narrowly focused to inflict maximum pain on the ruling regime in Tehran while minimizing the impact of the people of Iran and on global markets. For example, many have suggested increased sanctions on Iran's oil industry. Although this is an obvious target given that oil accounts for 80 percent of Iran's exports and 70 percent of the government's revenue, any sanctions would likely lead to a significant increase in global oil prices.

We have to weigh that and determine whether or not that means we should move forward with those sanctions or take some other course. Given our current economic conditions, any significant increase in oil prices is likely to harm any fragile recovery in the world and increase living expenses for families both in Europe and Asia as well as the United States.

I have also been concerned by recent attempts by Congress to tie the hands of the administration by mandating sanctions of a particular nature without leaving suitable flexibility. Although I believe Congress has an important role to play in authorizing executive action and determining the scope of potential sanctions, I think the Congress must also provide the President with the authority to exercise sanctions and the flexibility to determine when and how to use them in conjunction with international partners. Only with this flexibility will the President be able to continue to ensure the support of the international community and ultimately facilitate a change in Iranian policies, we hope.

I look forward to hearing from all of our witnesses today. I hope they can help us explore our options at this critical point in American-Iranian relations. As we discuss these options, we must carefully evaluate all of the risks and all of the potential benefits of each policy option and ensure an effective approach.

I want to thank you again, all of our witnesses. I look forward to hearing your testimony.

Mr. CHAFFETZ. Thank you.

I would now like to recognize the chairman of the Oversight and Government Reform Committee, the distinguished Member from California, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. And I will be brief.

I came here to show solidarity over your concern that the administration continues to rebuff any attempt at real oversight by this and other committees of the Congress.

I could not fail to note the gentleman from Massachusetts' opening statement that somehow there is a price of oil linked to whether or not we have effective enforcement against Iran.

Mr. TIERNEY. If the gentleman will yield?

Mr. ISSA. Of course.

Mr. TIERNEY. That was a question about whether or not there ought to be and whether or not we ought to consider it.

Mr. ISSA. Right.

Mr. TIERNEY. So I don't mind you quoting me; just please do it accurately.

Mr. ISSA. And in light of that full disclosure, I think it is only fair that we understand that this committee has, and other subcommittees, worked very hard to recognize what the potential for replacement of Saudi Arabia, Iranian, and other oil and natural gas. We are now becoming a net exporter of natural gas, and Pennsylvania alone has more proven known reserves of oil than Iran could possibly export. The fact is, we can, in fact, become oil and natural gas self-sufficient and even become an exporter, as we are, of natural gas.

So I do believe that we should go to the basic question. The basic question before us today is not, "What is Iran's intentions?" I was a first lieutenant in 1979. I have lived through Iran's intentions for longer than most people in this room have been alive. It is very, very clear that Iran's intentions are to continue being a disruptive force to peace and security in a region in which they live and extended well beyond.

The only exception that I would make is for those who say that what they might do miss the point that, every day, Lebanon is held captive by a Hezbollah financed by Iran. Every day, the Palestinian people find themselves having those who do not support peace and coexistence with Israel financed by Iran. Every day, the Syrian regime is kept together by money from Iran. And that is only the tip of the iceberg. As the chairman noted and the ranking member noted, the attempt to assassinate a seated Ambassador from Saudi Arabia on U.S. soil is another example of an Iranian connection that is ongoing.

So as we look today at what Iran will do with a nuclear weapon, I would suggest strongly that this committee recognize that Iran will do with a nuclear weapon, even if it never uses it, everything it has done for more than three decades and more. A nuclear weapon gives impunity to a government to be taken by force—something that Iran has not had to face. Iran has had to look at the existential threat of going to war with one or more other nations.

Once they have a nuclear weapon, they simply will do more of what they have been doing. They will fund terrorism around the world. They will be, in fact, a greater threat to Israel than they are today. I find that sometimes hard to believe, but I believe that they simply will look and say, "Now we can arm in a higher way Hezbollah and Hamas."

So the attempts to limit the economic capability of Iran to fund that are woefully inadequate. I do reserve the right and the author-

ity of Congress to dictate to the President what he or she can do with taxpayer dollars. And I think it is extremely important that the American people understand that as long as we allow $1 to be exported to Hamas or Hezbollah or other terrorist organizations by Iran, we have not done all we can do to limit the scope of their terrorism around the world.

I yield back.

Mr. CHAFFETZ. Thank you.

Members will have 7 days to submit opening statements for the record.

I would now like to recognize our first panel. Mr. Mark Dubowitz is the executive director of the Foundation for Defense of Democracies. Dr. Kenneth Pollack is the director of the Saban Center for Middle East Policy at the Brookings Institution. And Dr. Suzanne Maloney is a senior fellow at the Saban Center for Middle East Policy at the Brookings Institution.

We appreciate you all being here and taking time in preparation for this hearing.

Pursuant to committee rules, all witnesses will be sworn before they testify. If you will please rise and raise your right hands.

[Witnesses sworn.]

Mr. CHAFFETZ. Thank you. You may be seated.

Let the record reflect that the witnesses all answered in the affirmative.

In order to allow us time for discussion, please limit your testimony to 5 minutes. Your entire written statement will be part of the record, and we will move to questioning.

We will now recognize Mr. Dubowitz for 5 minutes.

STATEMENTS OF MARK DUBOWITZ, ESQ., EXECUTIVE DIRECTOR, FOUNDATION FOR DEFENSE OF DEMOCRACIES; KENNETH M. POLLACK, PH.D., DIRECTOR, SABAN CENTER FOR MIDDLE EAST POLICY, BROOKINGS INSTITUTION; AND SUZANNE MALONEY, PH.D., SENIOR FELLOW, SABAN CENTER FOR MIDDLE EAST POLICY, BROOKINGS INSTITUTION

STATEMENT OF MARK DUBOWITZ, ESQ.

Mr. DUBOWITZ. Well, thank you, Chairman Chaffetz, Ranking Member Tierney, and Chairman Issa, for the honor of testifying before you today.

Now, many rightly question the effectiveness of economic sanctions as the primary tool to frustrate or even thwart Tehran's nuclear plans. Sanctions, indeed, have led to the slow-motion demise of the Iranian energy industry as Iranian oil production continues to materially decline. However, their medium- to long-term impact is insufficient because Iran will likely cross the nuclear threshold before these sanctions have time to work. There is also no evidence yet to suggest that economic pressure has made the Iranian regime rethink its decisions to develop nuclear weapons.

U.S. sanctions policy has been crafted in a way that reduces Iranian oil investment while giving the market time to adjust to a reduction in Iranian production. The downside of this medium-term sanctions strategy is continued near-term annual export revenue of approximately $80 billion. These funds provide sufficient resources

to buttress the regime against sanctions and its economic and political challenges and to fund its nuclear and other nefarious activities.

To have any chance of success, sanctions need to target Iran's oil sales, which account for up to 75 percent of the government budget, 80 percent of export earnings. And they need to do this without causing a significant increase in petroleum prices. Otherwise, Tehran can sell less and make more money.

But effective energy sanctions don't have to raise oil prices. They actually can do the opposite if Washington learns how to leverage the self-interest of companies that won't adhere to U.S. sanctions. The objective of sanctions targeting Iran's oil sales ought to be to discourage white-hatted companies—European and some Asian companies that have no desire to risk their access to the American market—from dealing in Iranian oil while allowing black-hatted companies—mainly Chinese firms and some others—to continue to buy Iranian crude in whatever quantity they desire. We should want to reduce the number of potential buyers of Iranian petroleum without reducing the quantity of oil on the market. With enough white-hatted companies out of the market, black-hatted companies can drive ruthlessly for price discounts from Tehran. The Chinese, in particular, are aggressive businessmen with an interest in securing cheap oil.

I recommend the following three policies to accomplish this goal:

Number one, sanction companies buying oil from the Iranian Revolutionary Guard Corps. The Obama administration can greatly intensify the hassle factor in buying Iranian crude by designating IRGC entities in the crude oil supply chain, including the National Iranian Oil Co.

Number two, establishing the United States as an Iranian-oil-free zone. Right now, there is a loophole in U.S. law. American consumers are filling up their gasoline tanks with refined petroleum made from Iranian crude oil. The Iranian-oil-free zone would close this loophole by requiring that all European refineries exporting refined petroleum to the United States must certify that those products do not contain Iranian oil and be subject to penalties for false certification.

We have done detailed economic modeling that indicates an Iranian-oil-free zone would have a negligible impact on the price of oil and gasoline but deny the regime between $2.8 billion and $39 billion in annual oil revenues. Even at the lowest end of this range, this adds an additional 20 percent to Treasury Department estimates that all sanctions will cost Iran $14 billion in annual oil revenues over the next 5 years.

Number three, targeting the Central Bank of Iran. The administration should designate the CBI in its entirety but provide at least 6 months before implementation begins in order to give oil companies time to find alternative suppliers and calm oil markets.

This will be a critical 6-month period, however. In order to take advantage of this period, Washington should immediately and selectively prohibit certain oil transactions where the CBI plays a role involving IRGC-affiliated companies and oil buyers. Sanctions need not be enforced against Chinese energy firms buying Iranian oil. Treasury will have more flexibility to selectively enforce against

some buyers and not others based on evidence of IRGC involvement.

Energy traders will quickly sense that the quantity of oil on the market remains unchanged while Iran watches its oil revenues decline. This avoids price spikes as oil trades will continue; only the number of buyers for Iranian oil will be reduced.

This approach will be very costly for the CBI. It would reinforce an important message, as well. The CBI is a critical link in the IRGC-dominated oil supply chain and a key enabler of IRGC activities. This will help Washington build international support for a blanket designation of CBI, give markets more time to adjust to the possibility of more severe sanctions, and persuade oil purchasers and financial institutions to assess carefully the risks of doing business with the Central Bank.

These three approaches are mutually reinforcing and designed to achieve one goal: shrink the pool of buyers for Iranian crude and give the remaining buyers enough negotiating power to extract significant discounts from Tehran. If oil sanctions fail, no one could argue that countries threatened by Iran did not exhaust all peaceful alternatives.

Thank you.

[The prepared statement of Mr. Dubowitz follows:]

Introduction

Thank you Chairman Chaffetz, Ranking Member Tierney, and members of this distinguished subcommittee for the opportunity to testify. I am honored to appear before you today.

In my testimony, I will examine three ideas to ramp up the pressure on the Iranian regime through tougher sanctions on Iran's oil sales. I will describe an approach that holds the promise of significantly reducing the regime's oil revenues while mitigating the risk that oil markets will perceive these measures in a way that drives up the international price of oil. In my testimony, I will argue that indirect demand-side sanctions on the Islamic Republic could possibly accomplish what an Iranian oil embargo would do -- a severe reduction in Iranian hard currency earnings -- without the diplomatic trauma or a self-defeating oil-market backlash.

The recent report by the International Atomic Energy Agency on Iran's nuclear program has raised legitimate questions about the effectiveness of sanctions to frustrate Tehran's nuclear plans. Sanctions targeting Iran's energy, banking, and shipping sectors have cost the Islamic Republic billions of dollars. These sanctions have led to the slow-motion demise of the Iranian energy industry as Iranian oil production continues to materially decline. However, their medium-to-long term impact is insufficient because Iran will likely cross the nuclear threshold before these sanctions have time to work. There is also no evidence yet to suggest that economic pressure could make the Iranian regime rethink its decision to develop nuclear weapons.

For the West, however, sanctions have to be "targeted." They cannot impose massive economic costs on a country's citizens. They can't inflict too much economic pain on international companies, or rattle voters with higher gasoline prices. Even against this Iranian regime, whose possession of nuclear weapons could lead to a cascade of proliferation resulting in a nuclear-armed Middle East, the diminishment of American power, and a clerical regime even more willing to use terrorism, many in the West resist sanctions that are too "punishing" or "crippling."

So are sanctions against the Iranian regime destined to fail?

I believe sanctions can still work. But they must hit harder at the heart of Iran's oil industry, specifically oil sales, which account for between 50 and 75 percent of the national budget, and 80 percent of hard-currency export earnings, without causing a significant increase in global petroleum prices. Otherwise, Tehran can sell less oil and make more money while roiling global markets. This is a scenario we want to avoid.

The objective of the next round of sanctions should be a reduction in the number of potential buyers of Iranian petroleum without reducing the quantity of oil that Iran puts on the market. With enough Western companies refusing to buy Iranian oil, buyers from China and other countries that fail to enforce sanctions will quickly realize that they have leverage with which to extract discounts from Tehran.

The Chinese are aggressive businessmen with an interest in secure and cheap oil. The right kind of sanctions, although they would enable their questionable policies, would knock down the

price of Iranian oil, and in the process deny Tehran tens of billions of dollars in oil revenue. This will make it harder for the Iranians to have the funds to spend on their nuclear program, their terrorist proxies or other malevolent activities. While rewarding China for bad behavior is a less than a satisfactory alternative, when it comes to stopping Iran's nuclear designs, we don't have a choice between good and bad options. Our choice today is between bad and worse ones.

The Partial Success of Existing Energy Sanctions

Since the passage of the *Comprehensive Iran Sanctions, Accountability and Divestment Act* in July 2010, the Iranian energy sector has been under more pressure than it has been in recent memory.

The U.S. Department of State estimates that over $60 billion in foreign investment in Iran's energy sector has been frozen as a result of sanctions.[1] The U.S. Department of Treasury estimates that the regime will lose approximately $14 billion in annual oil revenue or a total of $70 billion over the next five years as a result of a decline in oil production precipitated by a combination of sanctions and energy sector mismanagement.[2] Iran also has been unable to meaningfully develop its enormous natural gas reserves, which are the second largest in the world after Russia, and valued at over $4 trillion. European and U.S. sanctions have significantly curtailed the investment needed to develop Iran's natural gas fields, and, most importantly, cut back on the transfer of liquefaction technology critical to Iran's ability to transport its natural gas by tanker to overseas markets.

In the run-up to the passage of CISADA in July 2010, which included sanctions against Iran's refined petroleum imports, and for some months after, Iran's gasoline imports dropped dramatically. Recent reports indicate that, in the four months between January 2011 and April 2011, Iran received only seven cargoes of refined petroleum, down from a *monthly* average of 10 to 13 cargoes (or approximately 2.7 to 3.5 million barrels per month). Between May and August, the Islamic Republic did not import any gasoline.[3] However, according to a *Reuters* report, imports into Iran increased in October to 63,279 barrels per day from 51,986 bpd in September,[4] or over 1.8 million barrels for the month of October, which puts Iran back at approximately the same level of imports it reached in July 2010 when CISADA was passed (but below the 3.6 million barrels it imported in May 2010).

During the period from May to August of this year, when Iran's imports fell to near zero, it is likely that Iran was able to temporarily reduce its dependence on imports by converting petrochemical facilities for the production of gasoline, utilizing reserve stocks, and reducing demand based on subsidy reductions. Whether or not Iran will rely on foreign imports in the

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[1] William J. Burns, "Implementing Tougher Sanctions on Iran: A Progress Report," *House Foreign Affairs Committee*, December 1, 2010. (http://www.state.gov/p/us/rm/2010/152222.htm)
[2] David Cohen, "Written Testimony of Under Secretary for Terrorism and Financial Intelligence David Cohen Before the House Committee on Foreign Affairs," *House Committee on Foreign Affairs*, October 14, 2011. (http://www.treasury.gov/press-center/press-releases/Pages/tg1327.aspx)
[3] "Iran October Gasoline Imports Up 21%," *Reuters*, November 10, 2011. (http://arabnews.com/economy/article531921.ece)
[4] "Iran October Gasoline Imports Up 21%," *Reuters*, November 10, 2011. (http://arabnews.com/economy/article531921.ece)

future will depend on how successfully it can sustain lower subsidies in the face of hyperinflation, in part caused by the rapid increase in prices for gasoline and other commodities. It will also depend on how strictly the Obama administration enforces refined petroleum sanctions against Iran's suppliers. Lax enforcement is a message to the trade that it can return to business as usual.

The U.S. Department of State has imposed sanctions on ten companies for violations of CISADA. These include:

- Naftiran Intertrade Company (Switzerland)[5]
- Belarusneft (Belarus)[6]
- Petrochemical Commercial Company International (PCCI) (Jersey/Iran)[7]
- Royal Oyster Group (UAE)[8]
- Speedy Ship (UAE/Iran)[9]
- Tanker Pacific (Singapore)[10]
- Ofer Brothers Group (Israel)[11] (sanctions have been subsequently lifted)
- Associated Shipbroking (Monaco)[12]
- Petroleos de Venezuela (PDVSA) (Venezuela)[13]
- Tidewater Middle East Company (Iran)[14]

While sanctioning these companies has been an important *initial* step in ratcheting up the pressure on the Iranian regime, many of these companies are small players in Iran's refined petroleum trade or its broader energy sector. Iran's major refined petroleum partners have still continued their trade. Numerous, much larger international companies are in blatant violation of American law by supporting Iran's energy sector and its nuclear and ballistic missile program. In this regard, China stands out as a country of particular concern.

The Limits of Existing Sanctions: The China Problem

Chinese firms are involved in supporting Iran's nuclear and ballistic missile programs. U.S administrations since 1991 have sanctioned Chinese companies over 80 times for providing

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[5] James B. Steinberg, "Briefing On Iran Sanctions Implementation," *U.S. Department of State,* September 30, 2010. (http://www.state.gov/s/d/former/steinberg/remarks/2010/169315.htm)
[6] U.S. Department of State, Media Note, "Iran Sanctions Act Announcement," March 29, 2011. (http://www.state.gov/r/pa/prs/ps/2011/03/159309.htm)
[7] U.S. Department of State, Press Release, "Seven Companies Sanctioned Under the Amended Iran Sanctions Act," May 24, 2011. (http://www.state.gov/r/pa/prs/ps/2011/05/164132.htm)
[8] Ibid
[9] Ibid
[10] Ibid
[11] Ibid. Ofer Brothers Group and Ofer Holdings Group were subsequently removed from the sanctions list though sanctions were retained against Tanker Pacific and two other entities indirectly owned by the Ofer family: http://www.nytimes.com/2011/09/14/world/middleeast/ofer-holdings-of-israel-removed-from-iran-sanctions-blacklist.html
[12] Ibid
[13] Ibid
[14] U.S. Department of State, Press Release, "Joint Statement on Iran Sanctions," June 23, 2011. (http://www.state.gov/r/pa/prs/ps/2011/06/166814.htm)

proliferation-related parts and components to Iran, which has had some impact.[15] While the Chinese military and state-owned companies are now somewhat less active on this front, the supply of critical parts and components for these programs has now shifted to Chinese brokers and middlemen who appear to be acting with the approval of the Chinese government.

Chinese companies also have continued to supply a significant portion of Iran's refined petroleum in violation of U.S. sanctions laws.[16] Zhuhai Zhenrong has been one of the most active traders, along with Emirates National Oil Company, and, in recent months, has been responsible for an increase in gasoline sales to Iran after months of an overall decline in shipments.[17] Its parent company, NORINCO, has been sanctioned several times by the U.S government for supplying Iran with missile technology.[18]

Zhuhai Zhenrong would be a good target for sanctions. Indeed, it may be easier for the Obama administration to sanction a Chinese gasoline trader, which can terminate its ties to Iran in days, and for whom refined petroleum sales is a minor business, than it would be to target China's state-owned energy giants and their billions of dollars of investment in Iran's energy industry. This would send an important shot-across the bow to other gasoline suppliers, and send a message that the administration is serious about the enforcement of CISADA. China should know that it will not get a complete free pass.

Persuading China to stop relying on Iran as a supplier of crude oil will be a more significant challenge. When China looks at Iran's enormous untapped energy reserves, it sees multiple opportunities to develop, extract, and secure energy resources vital to its economic security. Since the 1990s, China's role in global energy markets has increased dramatically. To fuel its double-digit annual growth, China has had to import substantial amounts of energy. By 2006, it was the world's third-largest net importer of oil.[19] In 2008, according to the U.S. Energy Information Administration, China consumed an estimated 7.8 million barrels of oil per day, of which it imported 3.9 million, "making it the second- largest oil consumer in the world behind the United States."[20] In 2010, China's total crude oil imports grew to 4.8 million barrels per day.[21]

China's growth is expected to continue. The International Energy Agency predicts that China

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[15] "US Nonproliferation Sanctions Against China-Statements and Developments," *NTI*, accessed November 10, 2011. (http://www.nti.org/db/china/sanctchr.htm)

[16] Joseph A. Christoff, "Firms Reported in Open Sources to Have Sold Iran Refined Petroleum Products between January 1, 2009, and June 30, 2010," *U.S. Government Accountability Office*, September 3, 2010. (http://www.gao.gov/new.items/d10967r.pdf)

[17] Joseph A. Christoff, "Firms Reported in Open Sources to Have Sold Iran Refined Petroleum Products between January 1, 2009, and June 30, 2010," *U.S. Government Accountability Office*, September 3, 2010. (http://www.gao.gov/new.items/d10967r.pdf)

[18] Shirley A. Kan, "China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues," *Congressional Research Service*, April 5, 2005. (http://fpc.state.gov/documents/organization/47794.pdf)

[19] U.S. Energy Information Administration, "China," *Country Analysis Briefs*, July 2009, p. 1. (http://www.eia.doe.gov/cabs/China/pdf.pdf)

[20] U.S. Energy Information Administration, "China," *Country Analysis Briefs*, July 2009, p. 1. (http://www.eia.doe.gov/cabs/China/pdf.pdf)

[21] Judy Hua and Chen Aizhu, "UPDATE 2-China 2010 Crude Oil Imports Up 17.5 pct to Record High," *Reuters*, January 10, 2011. (http://af.reuters.com/article/energyOilNews/idAFTOE70607320110110)

will overtake the U.S. after 2025 as the world's largest purchaser of imported oil and gas.

To support this growth in long-term energy demand, Beijing has encouraged its national energy companies to invest in upstream projects overseas in an effort to secure long-term resources. Chinese companies, including CNPC, CNOOC, and Sinopec continue to invest heavily in Iran's energy sector and reportedly have signed over $40 billion in new energy deals in recent years.[22] The Obama administration reportedly has assured Congress that Beijing has agreed to not sign new deals, and to "slow-walk" its existing deals.[23] However, it is unclear however whether this commitment covers the deals already in the pipeline and how quickly China is moving ahead in implementing the existing ones.

China is Iran's second largest purchaser of oil after the European Union. It imported 429,000 barrels per day in 2010, according to EIA estimates, which represented about 9% of China's overall crude oil imports and almost 20% of Iran's total daily crude oil exports.[24] At a $100 per barrel average price, if this percentage holds through the end of 2011, Iran will receive roughly $16 billion in oil revenues for the sale of its crude oil to China. This represents about 20% of Iran's total oil revenues, 16% of its hard currency-related export earnings, and approximately 10% to 15% of its total government budget.

This is the real challenge of finding an effective strategy to target Iran's oil exports. The Obama administration must keep up the political and diplomatic pressure on China to curb its role in supporting Iran's nuclear and ballistic missile programs, and sanction Chinese companies involved in Iran's refined petroleum trade. It must hold Beijing accountable for commitments to significantly reduce, or "slow-walk," its investments in Iranian energy production. In return, instead of punishing China for the purchase of Iranian oil, Washington should encourage Chinese firms to continue to buy Iranian crude in whatever quantity they desire and drive ruthlessly for price discounts on every barrel. How that can be done is the subject of the rest of this testimony.

How to Effectively Target Iran's Oil Sales

U.S. sanctions policy has been crafted in a way that reduces Iranian oil *investment*, while giving the market time to adjust to a reduction in Iranian *production*. The down side of this medium-term sanctions strategy is Iran's continued near-term annual oil export revenue of approximately $80 billion. Assuming Treasury's five-year estimates of a $14 billion decrease in annual oil revenues, and a $100 average price per barrel, the regime will still collect approximately $330 billion in total revenue over five years. These funds provide significant resources to buttress the regime against sanctions and its domestic economic difficulties and to fund its nuclear and other nefarious activities.

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[22] "China Invests $40b. in Iran Oil and Gas," *The Jerusalem Post*, July 31, 2010. (http://www.jpost.com/IranianThreat/News/Article.aspx?id=183200)

[23] Qasim Nauman and Rebecca Conway, "Iran Plays Down Pressure on China Energy Projects," *Reuters*, September 8, 2011. (http://www.defenddemocracy.org/news-picks/iran-plays-down-pressure-on-china-energy-projects) & Oren Kessler, "In Confronting Iran, Experts Say All Roads Go Through China," *The Jerusalem Post*, November 10, 2011. (http://www.jpost.com/LandedPages/PrintArticle.aspx?id=245027)

[24] U.S. Energy Information Administration, "China," *Country Analysis Briefs*, May 2011. (http://www.eia.gov/countries/cab.cfm?fips=CH)

The challenge is to find a way to squeeze the Iranian regime and, in particular, develop smart measures to target Iran's crude oil sales without encouraging an oil embargo of Iranian crude, which would spook energy markets, drive up the price of oil, enrich Iran, and damage the world economy.

Policymakers are right to target Iran's oil sales: Iran's daily exports of 2.3 million barrels in 2010 provide the regime with over $80 billion in annual revenue (assuming oil at $100 per barrel), and they account for between 50 and 75 percent of the state budget and 80 percent of export earnings.[25] Sanctions can only work – to the extent that they weaken the regime economically and open the door for other more punitive measures to roll back Iran's nuclear program– if they deny the regime this critical source of hard currency.

Crude oil however is a globally traded commodity, which means demand spikes or supply disruptions *anywhere* in the world affect prices *everywhere* in the world. As a result, U.S. officials seeking to stop Iran's nuclear weapons program are rightly concerned about the impact of an abrupt halt to Iranian crude oil supply on the world economy. Recent unrest in Libya took 1.3 million barrels a day off the market, pushing up U.S. oil prices up by 20 percent.[26]

Iranian crude oil exports represent almost double Libya's, and just over 2.5% over world demand, so a halt to Iranian supply would have an even larger effect.[27] Apart from damaging the world economy, oil price spikes would only enrich the Iranian regime, which could generate $120 billion in annual oil revenue at 2.3 million barrels per day if oil prices reached $150 as they nearly did on July 3, 2008 when they closed at a record $145.29 on NYMEX.[28]

Sanctions must generate good results, not just make us feel good. Sanctions involving a sensitive commodity like oil -- at a time of high oil prices, and economic recession -- must be designed to incrementally and rapidly increase the "hassle factor" in trading in Iranian crude, give the market time to adjust, and minimize the risk of alarmist market reactions. How market participants – particularly financial traders – perceive a new sanctions regime can impact near-term crude prices as much as actual changes in the physical market that the sanctions regime creates.

Moving forward, then, the objective of all these sanctions should be to discourage "white-hatted" companies—European and Asian companies that have no desire to risk their access to the American market—from dealing in Iranian oil. At the same time, these sanctions should actually allow "black-hatted" companies—mainly Chinese firms—to continue to buy whatever quantity of Iranian crude they desire. While this may seem counter-intuitive, our goal is to reduce the number of potential buyers of Iranian petroleum without reducing the quantity of oil on the

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[25] Mark Dubowitz & Reuel Marc Gerecht, "Oil Market Impact of an Iranian-Oil-Free Zone," *Foundation for Defense of Democracies*, October 2011, page 2. FDD confidential report provided to the U.S. government.
[26] Alden, William, "Analyst: Rising Oil Prices 'Primary Threat' To U.S. Economy As Libyan Violence Mounts," *The Huffington Post*, March 21, 2011. (http://www.huffingtonpost.com/2011/03/21/libya-conflict-oil-prices_n_838624.html)
[27] John Deutch, James R. Schlesinger, and David G. Victor, "Consequences of U.S. Oil Dependency," *Council on Foreign Relations*,
[28] Catherine Clifford, "Oil's Record High, One Year Later," *CNN*, July 2, 2009. (http://money.cnn.com/2009/07/02/markets/year_oil/index.htm)

market. With "white-hatted" companies out of the bidding, "black-hatted" buyers would have significant negotiating leverage to extract deep and painful discounts from Tehran.

It is against this backdrop that the Obama administration and Congress should consider a combination of sanctions specifically designed to reduce Iran's oil revenues and deny the regime the hard currency it needs to operate. This combination includes: sanctioning companies doing business with Islamic Revolutionary Guard Corps (IRGC) entities in the crude oil trade; creating an "Iranian oil-free-zone," by prohibiting the importation of refined-petroleum products containing Iranian crude into the United States; and targeted sanctions against the Central Bank of Iran as a precursor to a blanket designation of the CBI for its role in supporting proliferation and terrorism and providing financial services for the IRGC.

Exposing Iran's Islamic Revolutionary Guard Corps in the Sale of Iranian Oil

The Obama administration can greatly intensify the "hassle factor" for buyers of Iranian crude by exposing the role of the Islamic Revolutionary Guard Corps in the crude-oil export supply chain. This can be accomplished by strengthening American, European and other countries' laws prohibiting commerce with the Guards. This includes sanctions against foreign enterprises involved with the IRGC.

Supreme Leader Ali Khamenei has significantly increased the military and economic power of the Guards in recent years.[29] The Guards are unquestionably the dominant force throughout Iran's energy sector, including in the sale of Iran's oil. In the wake of the vicious crackdown on Iran's democratic opposition following Iran's June 2009 fraudulent election, there is almost universal distaste for the IRGC. This was only compounded after revelations in recent weeks of an assassination plot against the Saudi ambassador to the United States hatched by the Quds Force, the overseas terrorist unit of the IRGC.

In 2008, the Iranian parliament passed legislation to privatize Iran's state-owned businesses as part of an effort to stimulate growth. On numerous occasions, the IRGC has taken advantage of this process to penetrate the Iranian economy, particularly its oil and gas sector. Using its many subsidiaries, front companies, and "charitable" organizations, the IRGC has burrowed deeply into Iran's energy sector, making it nearly impossible for international energy firms active in Iran to avoid doing business with them.

The U.S. Treasury Department's recent decision to sanction Tidewater, which is an IRGC front company involved in managing Iran's ports, and the subsequent decision by major shipping companies like the Danish company Maersk to suspend its trade with Iran, are good examples of the chilling effect of these types of sanctions.[30] While there is some dispute whether Tidewater is involved in managing ports that involve Iranian crude sales, the Tidewater sanction could be

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[29] See: Emanuele Ottolenghi, *The Pasdaran: Inside Iran's Islamic Revolutionary Guard Corps*. (Washington DC: FDD Press, 2011).

[30] "U.S. Sanctions Iranian Port Operator, Airline," *Reuters*, June 24, 2011. (http://www.reuters.com/article/2011/06/24/uk-iran-usa-sanctions-idUSLNE75N01W20110624) and Kizzi Nkwocha, "Maersk Cuts Ties With Blacklisted Iranian Ports," *IFW Website*, July 5, 2011. (http://www.ifw-net.com/freightpubs/ifw/index/maersk-cuts-ties-with-blacklisted-iranian-ports/20017885857.htm)

used as a precedent for designating the IRGC entities that do involve crude, and indeed, sanctioning the ports themselves.

The Foundation for Defense of Democracies, where I am executive director, has provided a detailed report to the U.S. government mapping out elements of the Iranian crude oil supply chain. Sanctions against these and other IRGC entities, combined with the threat of sanctions against international companies doing business with the IRGC, could greatly encumber Iran's crude oil sales.

Building on the precedent of the Tidewater sanction, the United States should continue to designate IRGC companies that are part of the crude oil supply chain. Highlighted in our study, these companies include:[31]

- Arvandan Institution (Ghorb Karbala Subsidiary)
- Arvandan Oil & Gas Company
- Arvandan Shipbuilding Company (ASC) (IDRO Subsidiary)
- Daryabandar Line Marine and Shipping Services Company (Tidewater Subsidiary)
- Iranian Helicopter Company
- Iranian Oil Pipeline and Telecommunication Company (IOPTC) (NIORDC Subsidiary)
- Iran Shipbuilding & Offshore Industries Complex Company (ISOICO) (IDRO Subsidiary)
- Machine Sazi Pars Co (IDRO Subsidiary)
- National Iranian Tanker Company (NITC)
- National Iranian Oil Products Distribution Company (NIOPDC) (NIORDC Subsidiary)
- National Oil Refining and Distribution Company (NIORDC)
- North Drilling Company
- Paysaz (IDRO Subsidiary)
- Petropars Iran (PPI) (Petropars Subsidiary)
- Petropars Oil & Gas Institute (POGI) (Petropars Subsidiary)
- Petropars Oilfield Services Company (POSCO) (Petropars Subsidiary)
- Petropars Resources Engineering Ltd. (PRE) (Petropars Subsidiary)
- SADRA

In addition to the designations of firms connected to the Islamic Revolutionary Guard Corps, the United States should also consider designating Iran's state-owned National Iranian Oil Company (NIOC). NIOC is a party to every Iranian oil transaction. Leveraging its position as a state-owned institution, NIOC operates as the ultimate front company in obscuring the role of the IRGC in the oil trade.

In August 2011, IRGC Commander Rostam Qasemi was named as Iran's oil minister, further increasing the Guards' position in Iran's energy sector. Qasemi was designated by the United States and European Union for his role as the commander of IRGC entity Khatam al-Anbiya, which itself has been designated by the United Nations, European Union and United States for its role in supporting proliferation. My colleague Emanuele Ottolenghi, in his recent book on the IRGC, which was published by FDD, notes that the Guards maintain "a loose but fruitful

[31] FDD confidential report provided to the U.S. government.

cooperation with the National Iranian Oil Company."[32] It is a reasonable assumption that Qasemi's appointment will continue to increase this cooperation, making it increasingly difficult for international companies active in Iran's energy sector not to do business with the IRGC.

If the Obama administration rapidly increases its designations of IRGC entities active in the oil supply chain, it is likely that international energy companies, shippers, insurers, traders, refineries, and other market players will begin to look for alternative suppliers. The number of buyers of Iranian oil will shrink. Few respectable international companies would welcome front-page stories about their business ties to an organization increasingly seem as an international outlaw. The remaining buyers will increase their bargaining power to extract discounts on the price of every Iranian barrel of oil.

Establishing the United States as an Iranian-Oil-Free-Zone

There is an additional approach to target Iran's oil exports that leverages the pecuniary motivations of Iran's energy partners. Instead of hoping that penalties alone will be sufficient to persuade oil companies and financial institutions to terminate their ties with Iran, it may be possible to give China, and other buyers of Iranian crude, the incentive to shop ruthlessly when they buy from Tehran.

The key again is to reduce the number of companies willing to do business with Iran and provide the remaining buyers with sufficient leverage to demand a price discount on every barrel of oil.

Washington could accomplish this by declaring the United States an "Iranian-Oil-Free-Zone," an idea FDD developed with a European energy trader with over four decades of industry experience. The idea was first outlined in a *Wall Street Journal* piece I co-authored with FDD's Reuel Marc Gerecht, which ran on May 31, 2011.[33]

Current U.S. sanctions prohibit importing petroleum products directly from Iran, but American consumers still inadvertently purchase Iranian oil indirectly. Indeed, gasoline and diesel imported from Europe is made with Iranian crude. The "Iranian-Oil-Free-Zone" would close this loophole by requiring that all refineries exporting refined petroleum to the United States must certify that their products do not contain Iranian oil and be subject to penalties for false certifications.

Our strong belief, now supported by rigorous research and detailed economic modeling, is that an "Iranian-Oil-Free-Zone" would have a negligible impact on the price of oil and refined petroleum. With the loophole closed, Iranian crude oil supply would not be reduced, it would simply be redirected to different refineries. Refineries, particularly in Europe, would decide that the U.S. market was more important to their business than Iranian oil supplies, and that their Iranian crude imports, most of which are sour (93% is medium sour with the rest evenly split

[32] Emanuele Ottolenghi, *The Pasdaran: Inside Iran's Islamic Revolutionary Guard Corps*. (Washington, DC: FDD Press, 2011), p. 46.
[33] Mark Dubowitz and Reuel Marc Gerecht, "The Case for an Iranian-Oil-Free Zone," *The Wall Street Journal*, May 31, 2011. (http://online.wsj.com/article/SB10001424052748703730804576321372879366338.html)

between light and heavy)[34] could be easily swapped out in the refinery process for other Middle Eastern crude of similar quality (and, in some scenarios, smaller quantities of Latin American or Russian crude).

As Iran's pool of customers shrinks, those that remain would have more leverage in price negotiations. China, for example, could literally put Iran over a barrel when negotiating price on crude imports. This "oligopsony effect" (the buy-side equivalent of an oligopoly effect) would reduce the amount of money Iran makes on its crude oil sales without reducing Iranian oil supply. The magnitude of the discount depends on the number of buyers in the market, their ability and willingness to pay, and Iran's cost of production.

The Foundation for Defense of Democracies has modeled out various scenarios to test this hypothesis. We assessed four broad scenarios: (1) European refineries stop buying Iranian crude but all other countries continue as usual; (2) Europe is joined by Japan and South Korea; (3) China becomes the sole purchaser; (4) Europe, Japan and South Korea stop buying and half of the non-OECD countries (Turkey, India, Malaysia, South Africa, Pakistan, and Sri Lanka) join the effort. We also looked at a scenario in which China and India are the only purchasers of Iranian crude, as well as market differences when refineries within a given country negotiate with Iran separately, or when they collude and negotiate with Iran as a single customer.

According to the analysis, there would be a negligible impact on world crude and refined petroleum prices as a result of the implementation of this idea. Even in the most stringent scenario, where China is the only remaining buyer of Iranian oil, all non-Iranian crude could be redirected to other refineries with no net loss in global supply, and only a minimal impact in transportation costs (less than one cent per barrel when averaged over the global oil pool).

The important takeaway from this scenario: an increase in non-Iranian OPEC production would not be required. Additionally, we expect the financial market to react rationally to the idea as it waited to see the actual physical impacts (which are expected to be negligible) before significantly changing price expectations.

The "Iranian-Oil-Free-Zone" analysis yields a price discount on the sale of Iranian crude that varies considerably across the scenarios explored. The low end, according to our calculations, would yield a 2.7 percent decrease in price which would result in a $2.8 billion reduction in annual Iranian oil revenues, based on a scenario in which only European refineries stop purchasing, but all others continue as usual (and don't collude). At the highest end of the range, the price discount is 41.7 percent – amounting to a $39 billion decrease in Iranian oil revenues - , based on a scenario in which China remains the only buyer and Chinese refineries (all state-owned) collectively negotiate with Iran as a single customer.

Considering that the Treasury Department estimates that *all* current sanctions will cost Iran $14 billion in *annual* oil revenues over the next five years, an additional $2.8 billion reduction in Iran's *annual* oil revenues, based on the lower end of the range (or an additional 20 percent on top of Treasury's estimates), would be significant especially given the negligible impact on oil prices and the minimal risk of supply disruptions or reactionary or alarmist market reaction.

[34] Data from ENI and Energy Intelligence.

The lessons from the modeling exercise are: (1) reactionary or alarmist market reactions that assume Iranian supply will be materially impacted can sharply reduce or entirely negate the intended benefits of the measure; and, (2) buyers of Iranian crude can extract larger discounts on the price of each barrel of Iranian oil when those buyers are few in number, they have more negotiating leverage over Iran, and they can collude and negotiate with Iran as a single customer.

An incremental approach of IRGC designations – implemented rapidly – can reduce the number of "white-hatted" refineries willing to buy oil. These designations, combined with quiet persuasion, and the threat of sanctions against select Iranian crude oil buyers, can reduce the number of buyers, assure markets that physical supply will not be impacted, and reinforce the price discounts extracted by "black hats" as a result of the "Iranian-Oil-Free-Zone"

If past experience with sanctions on investment in Iran's energy sector is any guide, European companies, and possibly select companies from Japan, South Korea, India, will be more responsible and responsive players. They care more about their corporate reputation than Chinese state-owned energy companies or have more U.S. financial or market exposure than, for example, Turkish or South African companies.

While the European Union is the largest single importer of Iranian crude, buying about 20-25 percent of Iran's total crude sales, Iranian crude represents only 5 percent of the Europe's total imports, making it less dependent on Iran.[35] Europe's energy companies however have significant U.S. financial and market exposure making them more susceptible to American pressure.

The other larger importers of Iranian crude in order (with the percent that Iran represents of their crude oil imports in parentheses) are: China (9%), India (15%), Japan (10%), South Korea (9%) Turkey (44%) and South Africa (29%).[36] Japanese and South Korean companies, and to a lesser but still notable extent, Indian companies, have complied with U.S. energy investment sanctions. Some, if not all refineries in those countries, may also reduce or terminate their purchases of Iranian crude if faced with the threat of sanctions for doing business with the IRGC.

A combination of an "Iranian-Oil-Free-Zone" and sanctions against companies buying oil from the IRGC therefore might be enough to persuade Europe (and some individual refineries in Japan, South Korea and India) to stop buying Iranian oil. Indeed, by passing their own energy sanctions or in complying with select U.S. measures, Europe, Japan and South Korea have already demonstrated some willingness to make tough choices in the name of international security.

Targeting the Central Bank of Iran

Influential policymakers have characterized the designation of the Central Bank of Iran as the "nuclear option," or a sanction with such overwhelming impact that it should be used only as a

[35] Data is from UN Comtrade, JODI (www.jodidata.org), EIA.
[36] Ibid.

last resort. Indeed, George W. Bush administration officials, notably former Treasury Secretary Henry Paulson, were understood to be strongly opposed to a CBI designation, viewing central banks as a "third rail" of the sanctions track. The view seems to be shared by some Obama administration officials and more widely by policymakers in Europe. The fear is that, with Iran's economy already groaning under the weight of other significant sanctions, such a designation could cause the Iranian economy to effectively implode. The concern is that this would impoverish Iran's citizens and could give the regime a propaganda victory in blaming the economic misery on western sanctions (so far, the regime and not sanctions appear to be the target of blame by Iranians for the country's economic misery). More to the point, analysts fear that the move would have severely deleterious effects on the oil market, sending prices soaring and damaging the fragile world economy.

To the 92 U.S. senators who recently signed a letter calling on the Obama administration to designate the CBI,[37] and to America's jittery allies most concerned about the prospect of Iran armed with an atomic bomb, the real nuclear option involves Iran's spinning centrifuges, uranium enrichment, missile development, and nuclear weaponization. If a CBI designation is strictly implemented, and other central and commercial banks are sanctioned for transacting with the CBI, the impact on Iran could be enormous: It could cut off the Islamic Republic entirely from the global financial system and severely restrict Tehran's ability to engage in any type of meaningful financial or commercial transaction, including the sale of its crude oil.

With the designations of the Libyan and Syrian central banks by the Obama administration this year, a CBI designation is looking more possible. In his testimony before the Senate Banking Committee on October 13, 2011, Treasury Under Secretary David Cohen acknowledged that the Obama administration was looking at a CBI designation, and might move ahead, "if it engenders multilateral support."[38]

As Under Secretary Cohen and his predecessor Stuart Levey have so successfully curtailed the willingness of international banks to settle oil trades with designated Iranian banks, the CBI has become a critical financial lifeline for the Islamic Republic. Oil purchasers -- particularly from China, India, South Korea, and Japan -- have used the CBI, and select banks from Germany, Turkey, and Russia to settle oil trades. With CBI sanctions, these trades could be sharply reduced or frozen.

In recent weeks, however, press reports have suggested that the Obama administration may be backing off from a blanket designation of the CBI because of concerns about the impact on oil markets.[39] The fear may be that a strictly enforced designation against oil companies settling trades with the CBI could make it very difficult for anyone to buy Iranian oil, leading to fears in the oil markets of a disruption of Iranian crude sales.

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[37] Anna Fifield, "Senators Call for Iran Central Bank," *Financial Times*, August 10, 2011. (http://www.ft.com/intl/cms/s/0/add10442-c2b4-11e0-8cc7-00144feabdc0.html#axzz1dVtnQCWA)

[38] David S. Cohen, Written Testimony of Under Secretary David S. Cohen before the Senate Committee on Banking, Housing, and Urban Affairs, October 13, 2011. (http://www.treasury.gov/press-center/press-releases/Pages/tg1323.aspx)

[39] Paul Richter, "U.S. Backs Away From Sanctions on Iran Central Bank," *Los Angeles Times*, November 4, 2011. (http://articles.latimes.com/2011/nov/04/world/la-fg-us-iran-20111104)

In recent decades, five international crises have led to major oil supply disruptions: the Yom Kippur War (1973), the Iranian Revolution (1979), the Iran-Iraq War (1980-1988), the Persian Gulf War (1991), and the Libyan Civil War (2011). These crises led to supply disruptions that lasted anywhere between two and eight months, and increased oil prices ranging from to 20 percent during the first three months of the Libyan Civil War to 67 percent during the first two months of the Persian Gulf War in 1990.[40]

With Iranian crude oil exports representing almost double Libya's, and just over 2.5% of world demand, a halt to Iranian supply could have an even harsher effect on the world economy. Worse still, as noted above, oil price spikes would only enrich the Iranian regime, which could generate $120 billion in annual oil revenue at 2.3 million barrels per day if oil prices reached $150 or higher.

The administration is right to worry that wholesale sanctions against the Iranian central bank could shut down the export of oil and the Iranian economy. But neither the White House nor Congress, where sentiment in favor of central-bank interdictions is rising, needs to *immediately* implement a blanket designation against the CBI. Rather, such a designation could be constructed piecemeal with targeted sanctions against the Central Bank of Iran and its role in facilitating Iran's oil sales involving the IRGC as a precursor to a blanket designation of the CBI.

The administration should designate the CBI in its entirety but provide six months before implementation begins in order to give oil companies time to find alternative suppliers and calm oil markets. Given the pace of development of Iran's nuclear program, this will be a critical six month window during which time it will be necessary to drive as many white-hatted companies out of the market as possible.

To do this, as it builds support for the a blanket CBI designation in Europe and amongst other allies, Washington should immediately and selectively prohibit certain oil transactions, including those where the CBI plays a role in trades involving Revolutionary Guard-affiliated companies and international companies.

Sanctions need not be enforced against Chinese energy firms, for example, buying Iranian oil, using the "Iranian-Oil-Free-Zone" model as a guide. Treasury can selectively enforce sanctions against some buyers and not others based on evidence of IRGC and CBI involvement. Energy traders will quickly sense that the quantity of oil on the market remains unchanged while Iran watches its oil-revenues decline.

The short-term impact, if implemented correctly, would not create panic. Rather, it would create assurances that the West has taken control of the Iran crisis. Smart sanctions, as described here, should ensure that oil prices would react in a rational way as markets appreciate the fact that the physical supply of oil will be unaffected.

The effects of this approach would be costly for the CBI since it would face greater rejections of its transactions from responsible institutions unwilling to take a risk with the CBI in this environment and be forced to pay more significant transactions costs for those willing to help

[40] Data is from the EIA and IEA.

them evade sanctions. Increased transactions costs and lower oil revenues would drain the Iranian treasury.

It would also reinforce a central message: The Central Bank of Iran, like the National Iranian Oil Company, and other IRGC entities discussed above -- are critical links in the IRGC-dominated oil supply chain and key enablers of the IRGC's proliferation activities, terrorist operations and human rights abuses. This will help Washington build support for more comprehensive sanctions against the CBI and give markets more time to adjust to the possibility of more severe sanctions. This, in turn, will prompt responsible oil companies and financial institutions to assess carefully the risks of doing business with the CBI for the purchase of oil.

As the number of responsible or "white-hatted" companies decide that these risks are too great, the pool of buyers for Iranian crude will shrink, and the remaining buyers will have enough negotiating power to extract significant discounts from Tehran. All the while, Iran's reserves of hard currency will dwindle, leaving it with less leverage and less room to maneuver.

Conclusion

An effective sanctions strategy must be part of a comprehensive approach that includes a number of coercive measures to thwart—or even stall—Tehran's nuclear designs. Sanctions, even against Iran's oil sales, which are the lifeblood of the regime, are not a "silver bullet" and, to have a chance of working, must include a variety of measures that are dynamic and mutually reinforcing. Tehran is exploiting all loopholes in U.S. law and international sanctions to maintain the critical flow of revenues from its energy sector. Iran has a long history of gaming the international energy and financial markets and Western policymakers must continue to plug loopholes and identify new approaches.

But sanctions need not be a timid response to the Iranian threat. The right sanctions targeting Iran's oil sales, with proper calibration and implementation, can deliver an economic blow to Iran while preserving stability in the global economy. Robust sanctions are a necessary step before moving to more forceful action to stop Iran's nuclear ambitions. Indeed, leveraging sanctions to their fullest against the Iran regime is a strategic and ethical imperative for this administration and this congress. In this way, if sanctions against the regime's oil sales fail, no one can argue that countries threatened by Iran did not exhaust all possible alternatives.

Mr. CHAFFETZ. Thank you. And an impressive 2 seconds left on the clock.

Dr. Pollack, my challenge to you is to—we appreciate your testimony. We will now recognize you for 5 minutes.

STATEMENT OF KENNETH M. POLLACK, PH.D.

Dr. POLLACK. Thank you very much, Mr. Chairman, Congressman Tierney, Congressman Cummings. It's a great pleasure to address the subcommittee on this incredibly important topic.

Although I'm ready and willing to discuss the totality of U.S. policy toward Iran and Iranian policy toward the United States as we understand it, I would like to focus my remarks on Iran's role in Iraq, especially in the wake of the mutual decision by the United States and the Government of Iraq to end the American military mission to Iraq at the end of this year.

For now, I would simply like to make three main points about this extremely important topic—a topic that will have profound influence on Iraq itself, on American policy toward Iraq, and on the wider U.S.-Iranian competition throughout the Middle East.

The first point is that Iranian influence in Iraq is largely determined by how confident and strong the Iraqis feel, principally with regard to their own internal politics.

Ambassador Ryan Crocker, when he was Ambassador to Iraq, used to remark that there is a natural limit on Iran's influence in Iraq. This is a true statement, but it is also a relative statement; it is not an absolute. The ability of the Iraqis to resist Iran is heavily dependent on their own sense of self-confidence, the strength that they feel in themselves, and the strength of their own political process moving forward.

To use an analogy from the cold war, I think that it is safe to say that there was a natural limit on Russian influence in Finland that was no less great than the limit on Iranian influence in Iraq. But when the Finns felt that there was no one who could come to their defense after the Second World War, they unfortunately allowed the Soviets to dictate their foreign policy. Again, this was simply a function of the inability of the Finns to push back, of their sense that there was no one who could help them do so.

We've seen the same thing in Iraq. When Iraqis have been strong, when they have been confident, in 2003 and 2004, Iranian influence has been extremely limited. This was perhaps no greater than in 2008 to 2010, the period after the American surge and Iraq's own Operation Charge of the Knights, in which Iranian forces were largely routed from Iraq. Jaish al-Mahdi and other Iranian-backed insurgencies and militias in Iraq were driven from the country in a series of operations. From Basra to Sadr City, the Iraqi people stepped out, demonstrated they wanted nothing to do with Iran, and, as a result, Iranian influence was greatly limited.

In contrast, Iran's influence was greatest in the period 2005–2006, when Iraq was descending into civil war and was able to pry apart the many divisions within Iraq to play different Iraqi groups off against one another and use the influence that it has most of: weapons, intelligence, violence, money—all of the things that Iraqis needed in that period of time.

My second point is that Iran is now, unfortunately, stronger than it has ever been in Iraq before. And its influence, unfortunately, is likely to increase, rather than decrease, after the American withdrawal.

Iraq's 2010 elections were in and of themselves very good elections, but the aftermath was very poor. They have led to the formation of a national unity government in Iraq that is deeply paralyzed, that is riven by its own divisions. And this has allowed the Iranians to once again pry apart Iraq, isolate different groups, make inroads with a variety. Ultimately, it was Iran that put together this government in Iraq, not the United States.

In speaking to senior Iraqi leaders in recent months, I am struck by how many of them have said, mostly in resignation, never with any sense of joy, that today no Iraqi can become Prime Minister without Iranian approval.

Ultimately, Iran is the chief backer of violent extremist groups like Asaib Ahl al-Haqq, Khataib Hezbollah, who are running rampant in southern Iraq, who are recreating the violence there. They are the patrons of the Sadrists. They have exerted tremendous influence on a variety of Kurdish groups and others in Iraq. And, ultimately, Iran is now becoming the dominant external force in Iraqi politics.

My third and final point is that the best way that the United States can help remedy this current situation is—and it should follow from my previous two—by strengthening Iraqi domestic politics. Unfortunately, our ability to do so has been greatly limited. The withdrawal of American troops from Iraq will be a tremendous limitation on American influence moving forward. Ideally, the United States would massively ramp up its aid to Iraq in the wake of the withdrawal of American forces, but in the current budgetary climate this seems unlikely. Moreover, the White House has signaled a desire to pull back from the Middle East, not to move forward. This certainly is the perception in the region.

Ultimately, the most useful thing that the United States could do would be to find it in its heart to provide some assistance to Iraq. The more that Iraqis feel that the United States is helping them, guiding their politics, the stronger they will feel, they will push back on Iraq—excuse me, on Iran. And what we have seen is that they are far more able to push back on Iran and to prevent Iran from exerting influence in Iraqi affairs than we ever are.

Thank you very much.

[The prepared statement of Dr. Pollack follows:]

Testimony of
Kenneth M. Pollack
Director
The Saban Center for Middle East Policy at
The Brookings Institution

Prospects for Increased Iranian Influence in Iraq

Before the Subcommittee on National Security, Homeland Defense and Foreign Operations
Committee on Oversight and Government Reform
The United States House of Representatives

November 15, 2011

Mr. Chairman and distinguished members of the subcommittee, the subject of today's hearings is one of considerable importance to American interests in the Middle East. Since the Iranian revolution of 1979, the Islamic Republic has seen itself as locked in a struggle with the United States. At times, that competition was restrained—and even showed signs of possible detente. At other times, Iran has aggressively sought to hurt American interests by employing a wide range of stratagems and methods. Unfortunately, at present, and arguably for the past two years, Iran has turned decidedly in the direction of greater confrontation with the United States.

In light of the Administration's announcement that all American combat troops will be removed from Iraq by the end of 2011, it is particularly important for the United States government to consider how that decision will affect Iraq's future security, and especially how it may affect Iran's ability to influence or even dominate Iraq. There is no question that Iran has huge equities in Iraq, that it intends to maximize its influence there, and that Iran's goals in Iraq are mostly inimical to our own. Because of Iraq's intrinsic importance coupled with its significance to the vital Persian Gulf region, preventing Iran from achieving its maximal goals in Iraq will be crucial to America's interests in the region. Moreover, given the remarkable transformations sweeping the Arab world, it would be a terrible tragedy if Iran were able to exploit the volatility of the Arab Awakening to strengthen its position and undermine the stability of the Middle East. Here as well, Iran's ability to shape the outcome in Iraq will play a major role in determining how well Tehran is able to influence the wider political changes in the region. For all of these reasons, what happens in Iraq, and what happens regarding Iranian influence in Iraq, is one of the crucial questions facing the region today.

Unfortunately, the situation at present is not favorable to the interests of the United States and its allies in the region. Although it is both premature and beside the point to ask whether the United States "lost" Iraq or if Iran has "won" it, there is no question that Iran today has considerable sway in Iraq—far more than we or the Iraqis would like. Moreover, while it is certainly possible to imagine a course of action that the United States could pursue to reverse this state of affairs, under current circumstances it seems unlikely either that Washington would be willing to make the necessary effort or that if we were, that it would do more than marginally diminish Iran's

influence in the short term. This is part of the reason that a realistic assessment of Iraq's likely near-term future can only be a relatively pessimistic one. Most plausible scenarios for Iraq's future at this point are unhappy, at least in the near term, and the best (or perhaps, the least bad) scenarios do not seem to be the most likely. Iraq is liable to get worse before it gets better—*if* it gets better—although there are certainly things that the United States can do to minimize both the duration and the depth of these difficult times, if we are willing.

Iran's Goals in Iraq

Because of the inevitable uncertainty that shrouds Iranian decision-making, it is difficult to perceive Iranian objectives in Iraq. Nevertheless, it is reasonable to believe that the Iranian regime as a totality maintains a range of goals with regard to its policy toward Iraq. Almost certainly, different individuals within the regime may favor certain sub-sets of those goals, or may cling to only one principal objective. Moreover, it is likely the case that that range can best be represented as a hierarchy of goals ranging from highest to lowest priorities, and that if Tehran believes its highest priority goals have been achieved (or are unlikely to be threatened), then it will focus its attention on attaining the next highest set of priorities on that list. Finally, it seems highly probable that Iran's goals toward Iraq have changed over time, both as a result of changes in Iraq (and U.S. policy toward Iraq) and in Iran itself.

Iranian behavior since 2003 indicates that Tehran's foremost goal in Iraq has been to prevent the emergence of an Iraq that is threatening to Iran itself. This goal should itself be seen as a category encompassing a number of potential threats to Iran from Iraq. The first of these was the possibility that the United States would use Iraq as a springboard to invade Iran, clearly an overarching concern for Tehran in the immediate months after 2003 when Iranians (characteristically) saw the U.S. invasion of Iraq as really being all about them. The second has been the longer-term fear of the re-emergence of a strong, unified, anti-Iranian Iraq—in effect, a recreation of Saddam Husayn's regime. Finally, the available evidence indicates that Iran has also feared chaos or all-out civil war in Iraq as being potentially harmful for Iran either because of the potential for it to spill over and destabilize Iran itself, or to drag Iran into a regional conflict over Iraq and its resources.

In addition to this set of goals driven primarily by threat and fear, it seems both reasonable to postulate and consistent with the available evidence that Iranian leaders have also seen opportunity in Iraq. Indeed, in recent years, objectives derived from a sense of opportunity in Iraq appear to have supplanted those of fear as the primary drivers of Iranian policy, probably a result of changes both in Iraq and Iran (and American policy toward both). Certainly, Iran would like to see the emergence of an Iraqi regime that is not only not an adversary, but a friend, and preferably a subordinate friend. Iranians might look for an Iraqi ally, like what it has with the Asad regime in Syria, or with Hizballah in Lebanon. Because Iraq borders Iran (and its territory formed part of Persia for many centuries), Tehran may want something more than that, likely seeking to dominate Iraq, to be able to dictate key policy decisions to Baghdad and ensure that Iraqi governments take no actions without Iranian consent. At some level, Iranians may seek to outright control Iraq as a proxy, although there is nothing to suggest that Tehran seeks to conquer Iraq. So far, Iranian behavior toward Iraq has been more sophisticated and judicious than that, thus it may be that some Iranian leaders hope to outright control Iraqi policy, but suspect that it

may be impossible to ever do so and are instead striving for a somewhat lesser standard while holding out the hope that their dreams might still be realized.

This set of overarching concerns can be translated into a set of likely Iranian objectives in Iraq that do seem to accurately conform to Iranian policy toward Iraq since 2003.

1. Iran has sought to evict the United States from Iraq to prevent it from using Iraq as a base of operations against Tehran, and to eliminate American influence, mostly because it fears an American attack from Iraq, but at least secondarily because U.S. influence hinders Tehran's own ability to dominate Baghdad.

2. Iran has sought to prevent the re-emergence of a strong, unitary Iraq, one that could potentially challenge Tehran's bid for regional dominance or even threaten Iran itself.

3. Iran has sought to prevent outright chaos or all-out civil war in Iraq which could destabilize Iran itself or drag it into a regional war that could overstretch Iranian resources and political cohesiveness.

4. Iran has sought to ensure that any Iraqi government that takes power in Baghdad is weak and beholden to Iran.

5. Iran would like to see a new Iraqi regime emerge that is allied with or even subservient to Tehran.

Iran's Policy Toward Iraq: Tacit Cooperation, 2003-2005

Laying out this hierarchy of Iranian objectives in Iraq helps explain Tehran's evolving approach to Iraq since the American invasion. At first, as noted earlier, Tehran feared that the American invasion was simply a precursor to a move against Iran itself. To what extent this was generated by careless American talk about a "right-turn at Tikrit" as was then common among some circles close to (and even within) the George W. Bush Administration, and to what extent by historic Iranian self-aggrandizement is impossible to know.

Regardless of the inspiration, Iran reacted cautiously to this second manifestation of America's overwhelming conventional power in the Middle East in a generation. Throughout the 2003 invasion, Iranian military forces remained wary, but passive. Tehran did allow/encourage the Supreme Council for the Islamic Revolution in Iraq (SCIRI) and its Badr Brigades, as well as other Iraqi dissidents, to return to Iraq, but appears to have cautioned them against provoking the Americans. As could only be expected, Tehran began infiltrating other Iranian intelligence personnel into Iraq (as was rapidly reported by American intelligence services), but again, these personnel kept a low profile. The began building contact networks, but otherwise remained non-confrontational. Moreover, it was during this period that Iran demonstrated the greatest willingness to cooperate on its nuclear program, agreeing to talks with Germany, France and Britain (the E3) and suspending its uranium enrichment program while it did so—the only time Tehran was ever willing to do so. Finally, it was in this context that the mysterious spring 2003 letter, supposedly from the highest levels of the Iranian regime, was passed by the Swiss to the United States. Although the provenance and importance of that note has been hotly disputed, if

there is any validity to the episode at all, it too would count as evidence of a sudden Iranian desire to placate the United States, something hard to explain except as the product of Iranian fear of an American invasion.

Indeed, within Iraq itself, Iran pursued a policy of tacit cooperation with the United States. Again, Iranian intelligence personnel fanned out across the country and developed far-reaching networks of information-collection and persuasion. There were also reports that Iranian agents were developing networks that could be used to wage covert attacks on American or Iraqi personnel, but these same reports made clear that Iran was doing so only as contingency planning in case things deteriorated in the future. There was no evidence that Iran was actively encouraging or supporting attacks within Iraq at that time. American personnel in Iraq believed that the Iranians were developing this network for use in the event that one of Iran's primary goals in Iraq was threatened and they faced either an American invasion, the re-emergence of a strong, threatening Iraq, or the fragmentation of Iraq and the outbreak of civil war. Until then, Tehran kept its notoriously mischievous Quds force operatives on a short leash so that it would not stir up trouble for Iran with the United States.

Indeed, throughout 2003-2004, the vast majority of violence against Americans came from Sunni groups that hated Iran. While it is true that Muqtada as-Sadr's Shi'i Jaysh al-Mahdi (JAM) did conduct attacks on American forces, at that time, his movement had only very loose links to Tehran. The Sadr family had been famously anti-Iranian, and various well-informed Iraqis claim that his decision to move to Iran and take up religious studies after his defeat in Najaf in 2004 were encouraged by Iran as an effort to remove a volatile and erratic Shi'ah leader from the scene who could create problems with the Americans for Iran in Iraq. During this period, Iran's closest allies were the leaders of the SCIRI (since renamed the Islamic Supreme Council of Iraq, or ISCI), who became some of America's most important allies in Iraq.

For its part, Tehran pursued a policy of securing its interests by playing within the American-imposed system. Fear of an American military response kept Iran from making trouble in Iraq, and it appears that the Iranians took the U.S. at its word when Washington said it intended to build a democracy in Iraq. In any true democracy, Iraq's Shi'i majority would dominate the government and Tehran could be assured that while they might not like Iran (Iranians are well aware that the vast majority of Iraqis, including Shi'i Iraqis strongly dislike Iranians), they would not be looking to go to war with Iran and would likely want to be on good terms with Tehran. This was probably the best that Iranian leaders believed they could hope for under the circumstances since taking a more active role in Iraq would have risked provoking an American military response, and this course still promised to satisfy their their three highest priority objectives—preventing an American attack from Iraq, preventing the re-emergence of a strong, anti-Iranian Iraq, and preventing chaos and civil war that would threaten Iran. ISCI became Tehran's key instrument to achieve these goals, pursuing a policy of going along with the American effort to build a democratic Iraq and then ensuring that groups friendly to Iran prevailed within that system. Thus, between 2003 and early 2005, Iran was NOT the problem in Iraq.

Iran's Policy Toward Iraq: Waging an Asymmetric War, 2005-2008

Iran's policy toward Iraq changed dramatically in late 2005 and early 2006. In effect, the extensive intelligence and covert action network that Iran had built in Iraq "went kinetic" at that time, shifting from simply collecting information and creating a contingency capability to actively attempting to promote various Iraqi armed groups and assist them in their fights to secure greater power, resources and territory. By late 2006, Iran was "putting money on every number on the roulette wheel," as several Americans in Iraq put it to me, providing weapons, cash, information, training and other forms of support to a wide variety of groups—Shi'i, Sunni, Kurdish and others. What's more, Iranian operatives began to provide weaponry to some Iraqi groups (particularly Shi'i groups) with the expressed purpose of killing Americans, and began to actively encourage and assist Iraqi groups in attacks on Americans in Iraq.

As best we can tell, there were two related reasons for this shift. First, Tehran appears to have concluded that Iraq was simply falling apart. By early 2006 it was apparent to any unbiased observer that Iraq was descending into an all-out inter-communal civil war. The Americans were failing to create a stable, let alone democratic Iraq, and Iran was powerless to stop it. Although it had been a goal of Iranian policy to prevent just such an outcome, because it was happening anyway, Tehran had no choice but to do what it could to secure its other goals in the face of that reality. In these circumstances, the best Tehran could do would be to carve out buffer zones in Iraq, empower groups with ties to Iran, and get the Americans out of the way to prevent Washington from hindering Tehran's actions. This meant ensuring that whoever won the struggle for power in Iraq was tied to Iran, which in turn meant providing support to any Iraqi group who would take it. Of course, Iran tended to provide more support to the Shi'ah than others, if only because the Iranians believed (with good reason) that Iraq's Shi'ah majority was both most likely to prevail and most likely to be well-disposed to Iran. As a result, Iranian support to ISCI/Badr became increasingly militarized, while Iranian relations with other Shi'i militias like Fadhila and Jaysh al-Mahdi blossomed. In addition, Iran had one huge advantage at this point, in that Iraq's descent into civil war made what Iran had to offer—weapons, information, training in unconventional warfare—the most desired commodities by the groups vying for control of Iraq. Many of them also wanted to kill Americans, either out of principle or because the Americans were hamstringing their efforts to harm their real enemies among the other Iraqi groups. Thus, providing Iraqi groups with the wherewithal to kill Americans became a tremendously important source of influence for Iran in Iraq.

Tehran's second motive for reversing gears and supporting the various militias and insurgents across Iraq was that Iraq's descent into civil war, coupled with other problems across the Middle East in 2006 (many of them the result of spillover from Iraq in the first place), meant that Tehran no longer had to worry about its first two objectives—preventing an American invasion from Iraq and preventing the re-emergence of a strong, threatening Iraq. Iraq itself was fragmenting, not growing stronger, so that was an unlikely problem. Meanwhile, the United States was clearly badly bogged down in Iraq and on the defensive across the Middle East. Iranian leaders began to openly talk about America's inability to threaten Iran, and even about how Iran was now bleeding America in Iraq.

Thus, what changed for Iran in 2005-2006 was a sense that it no longer had to worry about conventional military threats emanating from Iraq, and it only had to worry about the danger of chaos and civil war. But since Iran could not prevent Iraq from such an implosion, the only thing

it could do was to protect its interests there as best it could amid the worsening civil war, and that meant shifting from the passive posture of 2003-2004 to one of actively supporting a wide variety of violent groups in Iraq in the hope of ensuring whoever won was beholden to Tehran, and possibly even being able to choose which group would win. As a result, in 2005-2006, the Iranians became one of the greatest agents of violence and chaos in Iraq.

Iran's Policy Toward Iraq: The Great Reversal, 2008-2010

Tehran's strategic shift in 2005-2006 was arguably a reasonable, even understandable decision and it initially may have seemed wise to Iranian decision-makers—and overdue to others. However, the change in American policy toward in Iraq in 2007 badly undermined it. When the Bush Administration finally realized the extent of its catastrophic mistakes in Iraq and reversed course in 2007, this shift caught the Iranians on the wrong side of history again. The deployment of 30,000 additional American troops, the adoption of a Low-Intensity Conflict (LIC) strategy, the Sahwa (or "Sunni Awakening" which was in part made possible by the surge and the LIC approach), and the wholesale changeover of senior American personnel who then devised and implemented these operations, completely overturned Iraq's security and political situation.[1] Within the space of 18 months, the civil war was suppressed, the Iraqi government was newly empowered, and the Iraqi people were in charge of their political leaders and not the other way around. Having bet heavily on trying to "win" the Iraqi civil war, Tehran became one of its biggest losers when the civil war was snuffed out. Across the board, and particularly among the heavily Shi'i population of southern Iraq, Iraqis rejected Iran and anyone who had been associated with Iran during the dark days of the civil war.

The nadir came for Tehran in the spring of 2008. At that time, although the "Surge" strategy had resulted in a remarkable transformation in the political-military circumstances of central, western and much of northern Iraq, southern Iraq was still largely a no-man's land controlled by various Shi'i militias and disrupted by the occasional Sunni terrorist attack. The worst offender was the Jaysh al-Mahdi (JAM), which effectively controlled Basra, Iraq's second largest city, along with a number of smaller cities throughout the south and Sadr City in Baghdad. At the time, JAM was also Tehran's strongest and most important ally in Iraq. JAM's creation of a state-within-a-state in Basra, along the lines of Hizballah in Lebanon, eventually became a personal affront to Prime Minister Maliki. He ordered a small operation by the local Iraqi division near Basra to try to signal to JAM that they should keep their behavior within boundaries. The Iraqi Army's brand new and inadequately-trained 14th Infantry Division was ordered to round up a number of the worst offenders. The JAM militiamen fought back, and initially inflicted a humiliating defeat on the 14th Division. To his great credit, the Prime Minister refused to back down and instead brought in reinforcements, including several of Iraq's best brigades from Anbar. The United States military, recognizing that the fight in Basra could be a make-or-break moment in the wider war between the government of Iraq and the militias, made the decision to back Maliki to the hilt and deployed considerable assets south to aid the Iraqi attack. The renewed Iraqi government

[1] I think it inappropriate to use the term "Counterinsurgency" to describe American strategy in Iraq after 2007. Although the Sunni tribes employed guerrilla war tactics against their enemies (both the United States and other Iraqi groups, including the Iraqi groups who controlled the government), Iraq was more properly an inter-communal (or ethno-sectarian) civil war in which the weaker side was simply employing insurgent tactics because they are the weapon of the weak. Indeed, some of the later mistakes that the United States made were a result of our misapplication of counterinsurgency doctrine to a civil war.

offensive was given the name "Charge of the Knights" and (with tremendous intelligence, fire support, and command assistance by the U.S. military) shattered JAM in its principal stronghold.

Of greatest importance, when the people of Basra saw that the Iraqi government was determined to take back the city from the Iranian-backed militia, they rose up against JAM and helped drive them from the city. Moreover, they did so explicitly because they wanted the civil war over, they wanted law and order provided by the central government in Baghdad, and they wanted the Iranians gone. In the weeks that followed, Prime Minister Maliki decided to run the table, mounting similar operations against JAM strongholds in Qurnah, Amarah, Kut, and Sadr City itself.

Charge of the Knights was a body blow to Iran in Iraq. Tehran was left reeling, its influence virtually eliminated by the assertion of Iraqi authority, the end of militia rule in southern Iraq, and the stunning public rejection of both the militias and Iran. Tehran's influence was at its lowest point in post-Saddam Iraq. In the 2009 provincial elections that followed, Iraqi political parties with ties to Iran—including both the Sadrists and ISCI—were virtually swept from office. Instead, Iraqis voted overwhelmingly for those parties they saw as being most secular, least tied to Iran, and least involved with the militias or culpable in the civil war. Indeed, 2009 saw the outbreak of democratic politics throughout Iraq, with various Iraqi militia parties forced to scramble to reinvent themselves as true political movements and Iraqi leaders forced to learn how to appeal to voters by actually delivering goods and services to their constituents rather than just taking them by force or graft as they always had in the past.[2] To try to rebuild his position, Muqtada as-Sadr was forced to renounce violence and disband the militia that had made him a major player in Iraq during the civil war, yet he remained deeply unpopular except with all small segment of the Shi'i population who continued to venerate his family name and his ultra-nationalist moderate-Islamist ideology. And throughout this period, Iran was left fuming on the sidelines.

Iran's Policy Toward Iraq: Back on Top, 2010-2011

Unfortunately, Iran's marginalization did not last for long. The problem, once again, lay in Iraq's internal politics. From 2008 to early 2010, Iran was largely shut out of Iraqi politics because the Iraqi people felt relatively safe and secure, and confident that their politics were moving in the right direction. Although Iraq was at best a proto-democracy, democratic politics and political pressures were increasingly taking root and driving the system. As a result, Iraqis felt that they did not need the hated Persians, and felt confident enough to push them out and keep them out.

This changed dramatically again, in the spring of 2010. In March of that year, Iraq finally held new national elections for its parliament, the Council of Representatives (CoR). The Iraqi people voted overwhelmingly for change, ousting 75 percent of the incumbents. As in 2009, they voted equally overwhelmingly for those parties they perceived as the most secular, the least tied to the militias, the least culpable for the civil war, and the least tied to Iran. They voted primarily for Prime Minister Maliki's State of Law coalition, and Ayad Allawi's Iraqiyya party. Iraqiyya took 91 seats and Sate of Law 89 out of 325 total.

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[2] On the impact of the security improvement on Iraqi politics, see Kenneth M. Pollack, "The Battle for Baghdad," *The National Interest*, Number 103 (September/October 2009), pp. 8-18; Kenneth M. Pollack, "Something's Rotten in the State of Iraq," *The National Interest*, No. 115 (September/October 2011), pp. 59-70.

Maliki refused to believe that someone other than himself had won and sought to use ambiguities in Iraq's rickety constitution to block Iraqiyya from forming a new government. The constitution does not specify that the party that won the most votes in the election gets the first chance to form a government, although this is common practice in most (but not all) parliamentary systems. Maliki demanded that Iraq's high court rule on this. Chief Justice, Medhat al-Mahmud, eventually issued an opinion that the constitution was consistent both with the idea that the party that received the most votes in the election should have the first chance to form the government, and with the notion that whichever group could informally put together a governing coalition after the election could also get the first official chance to form the government. This was an exceptionally unhelpful ruling which has not only helped paralyze Iraqi politics today, but set a horrendous precedent for future elections. Of course, Iraqiyyah and Maliki's other rivals immediately claimed that the Prime Minister had pressured Medhat to produce such a tortured opinion. Privately, many Americans and other foreigners in Iraq indicated that they believed this too, although no evidence has been produced to support the accusation.

At that moment, the best thing that the U.S. could have done would have been to set Medhat's opinion aside and, in concert with the UN, announce that what was best for Iraqi democracy in the long-term was to allow the party that received the most votes in the election to have the first chance to form a government. If that party failed within the time allotted by the constitution, the party with the next largest number of votes would get their chance. Thus, Allawi's Iraqiyyah would have had the first shot at forming a government and had they failed (as Maliki's people insisted they would), then State of Law would have its chance. Instead, the U.S. and the UN took no official position and threw Iraq into political chaos.

The election produced four major blocs in the parliament—Iraqiyyah, State of Law, the Kurds with 53 seats, and the Sadrists with roughly 40 seats. It meant that only Iraqiyyah and State of Law together could pass the 163 seats needed to form a governing coalition. Otherwise, each needed both the Kurds and the Sadrists and a few independents as well. That made both the Sadrists and the Kurds king-makers and both set out to extract the most they could from the parties before committing. To make matters worse, the new Obama Administration placed an excessive emphasis on having a fully "inclusive" government, which ruled out a number of possible combinations that might have produced a more effective Iraqi government, and done so sooner. For nearly a year, Iraqi politics came to a complete halt, all of the provisions in the constitution regarding the timetables for forming a new government were ignored, and the United States (and the UN) did nothing to force a resolution. This too set a terrible precedent, undermining the nascent effort to establish the principal of the rule of law and adherence to the constitution. It also derailed the momentum Iraqi democracy had built up in the prior 18 months and established the dangerous standard that what mattered was not how the people voted, but how the parties politicked afterward.

With the United States unwilling to break the political logjam or enforce the rules of Iraq's political system, Iraq's leaders were left to their own devices. Of far greater importance, the heated divisions among the main Iraqi parties and their no-holds-barred infighting over forming the new government allowed the Iranians right back in. Once the parties were frightened, angry,

isolated and feeling abandoned by the Americans, Tehran was able to step and bribe, persuade, promise, threaten and coerce Iraq's politicians to do things their way. And without either a coherent American alternative plan or American push back on Iranian pressure, the Iraqi politicians were slowly brought around to Tehran's preferred solution.

First, the Iranians forced the Sadrists to accept Maliki as prime minister (something they had previously refused). Then, they strong-armed Maliki (who fears and dislikes the Iranians himself) into cutting a deal with the Sadrists (whom he also detests). With that shotgun wedding accomplished, Maliki could then sit sat down with Barzani and (again, with Tehran's approval) agree to the Kurdish leader's terms, at which point Maliki had the votes to form a government. But both the Americans and Barzani wanted the mostly-Sunni Iraqiyyah coalition in the government too—Washington to preserve the impression of inclusivity, the Kurds as an internal counterweight to State of Law and the Sadrists, both overwhelmingly Shi'a parties. In November 2010, the deal was struck and the following month the ministries were divvied up and the government seated, mostly. There were no ministers of defense and interior since Allawi and Maliki could not agree on who would take those crucial portfolios.

The government created was, in effect, a government of national unity. It included State of Law, Iraqiyyah, the Kurds, the Sadrists and a variety of independents. It simply took all of Iraq's political differences and brought them into the government, utterly paralyzing the Cabinet and much of the bureaucracy. It was weak and much too dependent on Iran, precisely as Tehran had hoped. So far, none of the Iraqi participants has fulfilled his side of the many deals that were struck, insisting that someone else do so first. But there is no move to dissolve the government or bring it down by a vote of no confidence because all of the parties like owning various ministries, which serve as massive patronage networks—really graft machines—by which Iraqi oil revenues are converted into salaries, contracts, and illegal payments to the partisans of whichever group controls that ministry. Since the government is so large, only the defection of at least two of the main power blocs along with a number of independents could bring it down, but since all of the parties dislike and distrust one another and they are all terrified of losing their ministries if they try and fail, it has effectively proven impossible to create such a coalition. And in the end, too many of the players are looking over their shoulder at Iran before attempting such a gambit, and the Iranians have consistently forbade it.

Change for the Worse in Tehran

The last piece of the puzzle that needs to be set in place to understand Iran's role in Iraq today, is the transformation of Iranian politics that occurred in the summer and fall of 2009. June 12, 2009 and the weeks that followed were a watershed for the Islamic Republic. The regime confronted its most dangerous internal threat ever as millions of Iranians took to the streets and to their rooftops to protest what they believed was a stolen election. For the first time ever, they demanded the resignation of Iranian Supreme Leader Khamene'i. In effect, they demanded an end to the Islamic Republic itself.

At that moment, the more moderate voices within the Iranian establishment counseled making concessions to the opposition. These were the leaders of the Iranian reform movement, and not coincidentally the same people who had shown a willingness to negotiate with the West in hope of alleviating Iran's crippling economic and diplomatic problems. However, Tehran's

hardliners, like President Ahmedinejad and the leadership of the Revolutionary Guard, insisted on cracking down and refusing to make even the slightest compromise. So too did the Supreme Leader, who believes that the Shah fell because he was weak and made concessions to the revolutionaries (of which he was one) which then opened a Pandora's box that could not be shut again. Neither Khamene'i nor the Revolutionary Guard, nor any of Iran's other hardline leadership, plans to be ousted the way that they ousted the Shah, and they have made clear that they will employ whatever levels of violence are necessary to retain power.

In the weeks and months that followed, the regime embarked on a massive, systematic, and brutal but also highly sophisticated crackdown that effectively crushed the street protests of the opposition Green movement. Simultaneously, the regime's hardliners effectively "purged" its more moderates elements. Some were imprisoned, but most were simply left in place but deprived of power which in Iran's Byzantine system of personal politics derives largely from informal influence ultimately bestowed by the Supreme Leader himself. Most of the key moderates have retained their positions but no longer wield influence when the key decisions are made.

Thus, today, Tehran's hardliners dominate Iranian decision-making in ways that they have not since the early 1980s. There are fissures even within the innermost circles of the hardliners—it is Iran after all. However, the hardliners seem to be in fundamental agreement on three key foreign policy issues:

1. They show absolutely no interest in having a better relationship with the United States. President Mahmud Ahmedinejad is the exception that proves the rule: alone among the hardliners he has called for negotiations with the Americans, but only to demonstrate that Iran is so powerful and important that it must be seen as an equal by the United States. In this, Ahmedinejad has been fiercely opposed by the rest of Iran's hardline establishment, including by Khamene'i himself.

2. They appear to believe that Iran is best served by an aggressive, offensive foreign policy that seeks to disrupt the Middle Eastern status quo by supporting all manner of terrorist, subversive, insurgent and other extremist groups. They eagerly provide support to enable and encourage these groups to employ violence against the United States and its allies across the region in hopes of overturning unfriendly regimes, driving the United States from the region and bringing to power governments beholden to Iran. It is worth noting that while they find greatest receptivity among Shi'i groups, they are perfectly willing to provide such support to violent Sunni fundamentalists (Hamas and Ansar al-Islam) and secularists (the PKK) as well.

3. They appear to have concluded that they are already locked in a clandestine war with the United States and its allies. The regime doubtless believes that the United States and/or Israel was responsible for the Stuxnet virus and the assassination of Iranian nuclear scientists. They see American broadcasting into Iran and rhetorical support for the Green Movement as little more than the tip of the iceberg, hiding much greater American, Israeli, and Saudi efforts to foment rebellion in Iran. They appear to believe that the United States and its allies are already providing support to Kurdish, Arab, and Baluch

oppositionists within Iran. Indeed, if the purported plot to assassinate the Saudi Ambassador to the United States is valid, it suggests that Tehran's leadership has concluded that this covert war has escalated to the point where they are prepared to conduct terrorist operations on U.S. soil—something they have not done in over thirty years.

For all of these reasons, it is not surprising that this harder-line leadership has pursued a more aggressive, more recalcitrant and more anti-American foreign policy than at any time since the early days of the revolution. Over the past two years, Iran has ramped up its support for radical Shi'i groups in Iraq who have in turn stepped up their attacks on Iraqi Sunnis, on more moderate Iraqi Shi'ah and on American troops. In Afghanistan, Iran has provided more assistance and more lethal weaponry to the Taliban, contributing to the rising U.S. and Afghan security force death toll there. Remarkably, despite the passage of UN Security Council Resolution 1929—which imposed unexpectedly harsh sanctions on the regime for its refusal to halt its nuclear program, causing widespread economic hardship in Iran—Tehran thumbed its nose at international offers to negotiate an end to the nuclear impasse. Meanwhile, the regime has steadfastly clung to its Syrian ally, backing its slaughter of thousands of civilian protesters rather than give up its dictatorship.

Iranian Influence in Iraq Today

As of this writing, Iran's hardline leadership wields greater influence in Iraq than they have at any time since the American invasion. Senior Iraqi officials and political leaders from across the political spectrum grudgingly concede that no Iraqi can become prime minister without Tehran's blessing. Indeed, Maliki's re-election was engineered—much to his own chagrin—by the Iranians who forced him to partner with the Sadrists (and the Sadrists to partner with him), and then leaned on the Kurds to do the same, forcing Iraqiyya (and the Americans) to accept the current, dysfunctional government that serves no one's interests in Iraq except Tehran's.

Although Maliki and his advisers continue to dislike and fear Iran, they are unable to do anything contrary to Tehran's wishes. Consequently, the government has steadfastly ignored the violent depredations of Khataib Hizballah (KH) and Asaib Ahl al-Haqq (AAH), Iran's two principal proxies/allies in Iraq who have indulged in numerous attacks on American forces, assassinations of various Iraqi leaders and other terrorist acts. It is worth noting that these groups have even gone after the Sadrists from time to time and many in Iraq believe that Muqtada as-Sadr himself fled back to his studies in Qom in January 2011 because AAH was trying to kill him. This makes clear that Iran, not as-Sadr, is the moving force behind these groups.

The Iranians are putting intense pressure on the Kurds as well, particularly the Patriotic Union of Kurdistan, whose territory borders Iran. Iranian forces periodically shell Kurdish towns whenever the PUK acts more independently than Tehran would like. Kurdistan is overrun with Iranian intelligence agents, and PUK leader Jalal Talabani's personnel have no choice but to tread carefully because with the United States leaving, they see nothing that can balance Iran. Mass'ud Barzani's Kurdish Democratic Party is in a somewhat stronger position both because they do not share a border with Iran and because their strong relations with Turkey (temporary though that may be) afford them some ability to resist Iran.

This state of affairs is without question a product, directly and indirectly, of the American disengagement from Iraq. In a direct sense, the withdrawal of American military power from Iraq, the diminution of American aid to Iraq, and the general downgrading of Iraq policy by the White House have left Iraqis fearful of Iranian power projection capabilities—both conventional and unconventional. Iran's seizure of a single Iraqi oil well in December 2009 (with no response from either Iraq or the United States) was Tehran's way of signaling to Baghdad that it can use its conventional military power to inflict economically painful and politically humiliating damage on Iraq whenever it wants to without fear of American retribution. This was not lost on any Iraqi political leader, all of whom saw it—and the dismissive American reaction to it—as an extremely troubling development. Likewise, the assassination efforts of AAH and KH have impressed on all Iraqi leaders that their own lives could be at risk if they openly challenged Iran, in part because the United States cannot and will not protect them—either by physically guarding them or by threatening retaliation against Iran.

Nevertheless, it is the indirect manifestation of this problem that is ultimately the more important. As the brief history of Iranian involvement in Iraq since 2003 recounted above makes clear, the greatest limiting factor on Iranian influence in Iraq is the health of the Iraqi political system itself. When Iraq has been moving in a positive direction, when real democracy has been taking hold, when Iraqis have been confident in their security forces and their leaders, they eagerly and decisively shut Iran out of their country. To some extent this was true in 2003-2004, but it was unconditionally manifest in 2008-2009 when Iran suffered its worst defeats and was virtually shut out of Iraq because Iraqis felt like their country was moving smartly in the right direction. Whenever Iraqis have been fearful and internal conflict has prevailed, Iran has been able to exploit the fissures in Iraqi society to increase its influence. In 2005-2006, Iran was making tremendous gains across Iraq and some analysts argued that Iran was the most influential actor in Iraq, more so even than the United States.

Unfortunately, this is precisely the pattern that is manifesting itself in Iraq once again. The United States is disengaging from Iraq prematurely. Iraq shows no signs of being able to handle its security, its political differences, and its economic challenges by itself. Far from seeing the American departure as a clarion call to set aside their differences and make hard compromises to avoid the abyss, Iraq's political leaders are doing the exact opposite. So far, they have refused to compromise, dug-in their heels, employed every advantage to undercut their rivals, employed violence and engaged in graft whenever they could, and generally put the interests of their narrow power base ahead of the common good of all Iraqis. This, of course, is the path back to civil war. It is also the path toward ever greater Iranian influence in Iraq. As before, Iran has exploited the fissures, played divide and conquer, used its limited conventional and unconventional capabilities to exacerbate fear and mistrust and create an expectation of greater violence in the future which has prompted Iraqis to make short-term moves designed to protect themselves at the expense of a better future for the entire country.

It is too soon and too glib to argue that Iran has "won" in Iraq and we have "lost," but it is undeniable that our influence in Iraq is waning quickly, while that of Iran is growing at a similar pace. What's more, it is going to be very difficult—albeit not impossible—for the United States to change this dynamic. Indeed, it is probably more likely that the Iraqis may do so on their own with only modest help from the United States, although this scenario is probably the least likely

of the range of plausible futures one can imagine for Iraq in the near-term. This is more a statement about how little ability the United States has to fundamentally affect Iraq's political development at this point than it is about the likelihood that Iraqis will spontaneously start doing the right things, the things that they have been doing the opposite of over the past two years.

Scenarios for the Future of Iraq

It is not hard to discern that Iraq today is not headed in a positive direction. The government remains utterly paralyzed by the country's divisions, and by leaders absolutely unwilling to make compromises of any kind to break the logjam. Efforts to fight corruption, nepotism, and politicization of the military and bureaucracy have been discarded and all of these problems are running rampant. Indeed, corruption currently appears to be the only engine of government activity. Were there no corruption, the government might not be doing anything at all. Violence has re-emerged as a tool of various groups—including the governing coalition—seeking to advance their political agendas. This in turn is pushing other groups in the direction of taking up arms again if only to defend themselves against other groups using violence since the government is unwilling to apolitically enforce the rule of law.

Looking forward from this state of affairs, it is possible to imagine four broad, plausible directions in which Iraq might move. None would be worth celebrating, although some would be much worse than others. Unfortunately, in every one of these scenarios, Iran's influence in Iraq seems likely to grow, at least in the short term, which is both part of the reason that the scenarios are pessimistic (since Iran has an interest in seeing Iraq weak and divided) and part of where the pessimism derives from (since greater Iranian influence in Iraq, given the goals and composition of the current Iranian regime, is invariably problematic for American interests in Iraq).

A new dictatorship. Many Iraqis and many observers of Iraq, believe that the most likely future for Iraq is a new dictatorship, this time by the Shi'a. Although Prime Minister Maliki almost certainly is not consciously seeking such a position, his approach to Iraq's problems is nonetheless taking him that way all the same. Maliki evinces considerable paranoia, something entirely understandable from someone who was a member of a small, revolutionary party relentlessly chased by Saddam's security services for almost 30 years. This makes him prone to see conspiracies, especially among Sunnis. He is often impatient with Iraq's democratic politics, and he just as frequently acts arbitrarily, extra-constitutionally, even unconstitutionally to root out a suspected conspiracy or overcome political opposition. He is consolidating power within Iraq, and even within the Iraqi government, in a tight circle of people around himself. He is purging large numbers of people from other parties, groups, sects and ethnicities and rapidly politicizing Iraq's relatively professional armed forces.

If Maliki, or another Shi'a were to emerge as a new dictator, he would inevitably be pushed into Iran's arms. A Shi'a dictator of Iraq would axiomatically be rejected and ostracized by the majority Sunni states of the Arab world. The only ally he would have would be Iran—and perhaps Syria, if the Asads can hold power (and indeed, Maliki's government has come out publicly in support of the Asad regime in Syria's own civil war). Moreover, a Shi'i dictator would face tremendous opposition from Iraq's Sunni community, particularly the tribes of Anbar,

Salah ad-Din and Ninevah, all of whom would be supported by the Sunni regimes. Again, an Iraqi Shi'a dictator's only source of succor would be Iran.

Renewed civil war. Historically, this may actually be Iraq's most likely future. Although academic studies of intercommunal civil war show some variance, a considerable body of work—including the best and most recent studies—indicate that states that have undergone one such round of conflict (as Iraq did in 2005-2007) have anywhere from a 1-in-3 to a 1-in-2 likelihood of sliding back into civil war within about five years of a ceasefire (which in Iraq came in 2008).[3] Since the U.S. invasion in 2003, Iraq has followed the quintessential pattern for how states descend into civil war, how they emerge from it, and now how they fall back into it. Everything that is going on in Iraq today as American peacekeepers prepare to leave—the resumption of violence, the rapid deterioration of trust, the expectation that things are going to get more violent and corrupt, the unwillingness of leaders to compromise, the determination of actors across the spectrum to take short-sighted actions to protect themselves at the expense of others' trust and security—shows that Iraq continues to hew closely to these awful patterns. Indeed, even Maliki's unconscious bid for dictatorship is probably more likely to produce civil war than a return to centralized autocracy. If he keeps pushing in this direction, the Sunnis and Kurds will likely revolt, the military will fragment (a la Lebanon) and the result will be civil war, not a stable tyranny.

Civil war would be bad for Iran. Indeed, it might actually be the worst scenario for Iran in that it would likely produce very significant spillover into Iran. It could easily radicalize large segments of Iranian society, perhaps prompting the Kurds and Arabs of Iran to revolt, or convincing Iran's dominant Shi'ah to become more actively anti-Sunni. It would doubtless encourage Iran to intervene heavily in Iraq, which would stress Iran's limited resources and provoke a counter intervention by Iraq's Sunni neighbors. Given the high degrees of popular antipathy toward the regime, and the willingness of Iranians to risk physical harm by the regime to voice their grievances, spillover from civil war in Iraq could generate new popular protests or even renewed rebellion in Iran (especially if intervention in Iraq taxed the Iranian state and its military the way that the First World War did Tsarist Russia, or the wars against England taxed Bourbon France). It could also bring Iran into covert or even overt conflict with Iraq's Sunni neighbors as the Congolese civil war turned into "Africa's world war" and the Lebanese civil war sparked conflict between Israel and Syria.

Nevertheless, civil war in Iraq would also be disastrous for the United States for a variety of reasons. One of them would be that in the short term, Iran would likely find itself able to

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[3] On the proclivity of civil wars to recur, see Paul Collier, Lani Elliott, Havard Hegre, Anke Hoeffler, Marta Reynal-Querol, and Nicholas Sambanis, *Breaking the Conflict Trap: Civil War and Development Policy*, The World Bank and Oxford University Press, Washington, DC, 2003, available at http://homepage.mac.com/stazon/apartheid/files/BreakingConflict.pdf, p. 83; James D. Fearon, "Why Do Some Civil Wars Last So Much Longer than Others?" *Journal of Peace Research*, vol. 41, no. 3 (May 2004); Donald L. Horowitz, *The Deadly Ethnic Riot* (Berkley: University of California Press, 2001); Stathis N. Kalyvas, *The Logic of Violence in Civil War* (Cambridge: Cambridge University Press, 2006); T. David Mason, "Sustaining the Peace After Civil War," The Strategic Studies Institute, U.S. Army War College, Carlisle, PA, December 2007; Barbara Walter and Jack Snyder, eds., *Civil Wars, Insecurity, and Intervention* (New York: Columbia University Press, 1999); Barbara Walter, "Does Conflict Beget Conflict? Explaining Recurring Civil War," *Journal of Peace Research* 41, no. 3 (May 2004): 371—388.

dominate significant areas of Iraq by backing Shi'a militias in the fighting—militias that would have no one to turn to except Iran, as was the case in 2005-2007. Moreover, the radicalization of Iraq's Shi'a would likely spillover into Kuwait, Bahrain and even Saudi Arabia, creating new opportunities for Iran to stoke unrest in those states, possibly with disastrous results.

A failing state. Another plausible outcome of Iraq's current state of affairs would be a weak, fragmented, or even a failed state. The central government has a certain amount of power, but it is not efficient and Iraq's provinces have a certain ability to resist. Moreover, as Maliki attempts to centralize power, so other groups are pushing in the opposite direction. Thus, while one set of scenarios would have to envision Maliki (or some other Shi'a leader) prevailing in this contest and establishing a new dictatorship, so another set of scenarios would have to imagine him failing because the provinces/regions/ethno-sectarian communities were successfully able to resist and to pull away from the central government. Indeed, Salah ad-Din province recently declared its autonomy, and there is widespread talk of Anbar and Nineveh joining it in a Sunni region akin to the Kurdistan Regional Government. Likewise, numerous groups and influential figures in oil-rich Basra are talking about doing the same. If they were to succeed, they would cripple the Iraqi central government. Because Iraq actually requires a fair degree of integration for economic reasons, such a centrifugal trend would likely result in an across the board breakdown in public services, economic affairs and security. Local groups (militias, but likely operating in the name of provincial governments) would fill the vacuums as best they could, but their efforts would be uneven at best, and at worst—and probably far more likely—would be corrupt, incompetent and prone to violence. Iraq might not quite look like Somalia, but it could end up bearing more than a passing resemblance to it, with all of the terrible implications for terrorism and instability in the wider region that implies.

Again, Iran too might suffer from lawlessness and corruption in Iraq along the lines of a lesser version of the civil war scenarios. However, like in that scenario, virtually all of the Shi'i groups would inevitably find themselves reliant on Iran for aid because none of Iraq's other neighbors would provide them with any support, and the Sunni neighbors will provide assistance to the Sunni groups. Indeed, in this scenario, some provincial governments might make better and more legitimate partners for Iran than the unadulterated militias of the civil war scenarios.

Muddling through, perhaps ultimately upward. The only plausible, positive (in a purely relative sense) scenarios that one can imagine for Iraq given its current state of affairs are ones that envision long, painful processes during which Iraq does not fall apart or fall into dictatorship, but not much positive happens either for some period of time. Then, at some point in the future, either because Iraqi voters are somehow able to bend Iraq's politicians to their will in a way that they could not in 2010, or because a charismatic and altruistic leader emerges who galvanizes the Iraqi polity, things begin to move in the right direction. Leaders begin to make compromises, small at first, but growing as they build trust in one another and reap the benefits of cooperation. Outside powers and businesses see progress in Iraq and begin to invest again, creating an economic stake for everyone in continued cooperation and progress. Violence is discredited. Eventually, this could produce a strong, self-confident, truly democratic Iraq that would have the strength and confidence to limit Iranian influence to what is customary among neighboring states.

Such scenarios are not impossible, but at present they also seem quite unlikely. There simply is no evidence in contemporary Iraq that would suggest that this is happening or could happen soon. The macro trends in politics, security and the economy are all negative, and while there are certainly some positive trends at a more micro level, these are all almost certain to be swamped if those macro trends continue to move in the wrong direction. When one looks at what is happening in Iraq today, it is very hard to find evidence to make a compelling case that Iraq is likely to muddle through its current problems, find a way to unlock its paralyzed political process, and begin to replace its vicious cycle with a benevolent one.

Options for the United States

To a very great extent, Iraq is passing beyond America's influence. This is a great pity because, as witnessed by developments there especially over the past 12-18 months, Iraq is not ready to stand on its own without significant external guidance and assistance. However, the policy of the Obama Administration has made this situation an irreversible, if unfortunate, reality. There is no turning back the clock, even if Washington suddenly had a change of heart. The decisions that have been made are now virtually set in stone. There will not be a significant American military presence in Iraq in the future. That train has left the station and it cannot be recalled or reboarded at some later stop.

There are effectively two broad policies that the United States can adopt to try to help Iraq to move in the right direction and limit Iran's ability to push Iraq in various wrong directions. The first of these would be for the United States to develop a major, across-the-board program of military/diplomatic/economic assistance to Iraq, the provision of which would be conditional on the Iraqi government's behavior. Although in some ways this is a "no-brainer" in that it could only have positive consequences for Iraq, we should not exaggerate the amount of influence it will buy us even if pursued energetically. Moreover, there appears to be little interest in adopting it among senior levels of the Obama Administration. The second course of action is by far the more difficult and dangerous one as it focuses on pushing back directly against Iran to limit its ability and willingness to make mischief in Iraq. Although this approach could pay dividends not only in Iraq but in other aspects of U.S. policy toward Iran, we should recognize that adopting this policy entails a number of important risks and costs and so should not be undertaken lightly.

Supporting Iraq. As noted above, the stronger Iraq is, the more that Iraqis will resist Iranian encroachment and the Iraqis are much better at doing this themselves than the United States is at doing it for them. However, a critical aspect of a "stronger" Iraq is an Iraq that is moving toward greater pluralism/democracy, rule of law, economic stability, anti-corruption, and internal integration. Given that Iraq is not moving effectively toward any of these goals, American aid would be extremely helpful—if not absolutely vital—to bolster Iraq directly and to create an incentive structure to get Iraq's political leaders to make the hard political decisions that will put Iraq's long-term good ahead of their (or their community's) short-term gain.

In a nutshell, Washington needs to redouble its efforts to continue to guide Iraqi political developments, push Iraqi leaders to make fundamental compromises and prevent them from subverting the system and dragging Iraq back into civil war. That will require a major push to preserve and even expand American influence there. In the wake of the withdrawal of American

military forces from Iraq, this will require a major effort to bolster American influence through the savvy employment of the long-term U.S. aid relationship with Iraq.

After 30 years of Saddam Husayn's misrule, three foreign wars, a dozen years of comprehensive international sanctions, and an inter-communal civil war, Iraq needs all the help it can get. The Iraqi armed forces want to purchase large amounts of American weaponry and retain U.S. training assistance. The Iraqi economy remains a basket-case, and Iraqis from across the country and across the political spectrum recognize a need for American assistance in rebuilding Iraqi infrastructure, agriculture, and industry; reforming Iraq's educational system, business regulations, and bureaucratic operations; and helping Iraq to reintegrate into the global economy, overcome a series of lingering diplomatic problems, and avoid excessive intervention by any of its neighbors. Many Iraqis even recognize that their fragile democracy would benefit from a continued American military presence in the country—if only to restrain predatory indigenous politicians and neighboring states alike.

All of these Iraqi needs and desires create leverage for the United States. They are all things the Iraqis want from the United States. Anything the Iraqis want from the United States can and should be provided, but only if Iraq's political leaders continue to behave in a manner consistent with Iraq's long-term best interests in building a strong democracy and the rule of law—which also just happen to be America's principal interests as well. Thus, the most important source of American influence moving forward is conditionality. Virtually all American assistance needs to be conditioned on the Iraqi political leadership guiding their country toward greater stability, inclusivity, and effective governance. The Strategic Framework Agreement (SFA), a partnership document between Iraq and the United States that was initiated by the Iraqi government, provides a foundation for this type of assistance. If the United States wants to maintain leverage in Iraq, the SFA must ultimately deliver outcomes that Iraqis value.

Because Iraq's domestic politics is the key to the future stability of the country, and because it remains so fragile, it must be the principal American focus. Specifically, this will mean that several important standards must be met: continuing progress on democracy, transparency, and the rule of law; continued development of bureaucratic capacity; no outbreak of revolutionary activity, including coups d'état; no emergence of dictators; reconciliation among the various ethno-sectarian groupings, as well as within them; a reasonable delineation of center-periphery relations, including a workable agreement over the nature of federalism; and an equitable management and distribution of Iraq's oil wealth, as well as the overall economic prosperity that must result from such distribution.

On the economic front, U.S. assistance to Iraq should be conditioned upon the Iraqi authorities putting in place oversight and accountability mechanisms aimed at limiting the corrupting and insulating effects of Iraq's oil economy. The central challenge in this area will be reconciling U.S. and Iraqi expectations for future American aid and finding creative ways to use the SFA and whatever assistance the Congress and the administration are willing to make available in an era of sharply declining resources. Fortunately, there are key areas of the Iraqi economy where U.S. diplomatic support, technical assistance, consulting services, and technology and knowledge transfers could deliver substantial benefits.

None of this is unknown to the U.S. government. Many of the savviest members of the Obama Administration are well aware of all of this, and have argued for laying out a comprehensive aid package to Iraq under the auspices of the SFA, which was intended to do exactly that. These officials recognize that publicly fleshing out the SFA, making loud and clear to Iraqis that the United States is ready and willing to provide them with significant assistance on dozens and dozens of matters of importance to them would both increase their confidence in Iraq's future AND would create powerful leverage for the United States with Iraqi officials since the withholding of American aid that average Iraqis wanted because Iraqi officials were subverting Iraqi democracy or the rule of law would be threatening to Iraqi politicians.

Unfortunately, senior Administration officials have evinced little interest in providing significant new aid for Iraq (even at levels far below the height of American assistance under the Bush Administration). Along similar lines, the United States has simply done little or nothing to promote a far-reaching strategic relationship by employing the mechanism of the aid provisions of the SFA. American officials show little energy in pushing the Iraqis to negotiate such a package, and even less willingness to unilaterally explain to Iraqis publicly what is on offer from the United States and so force Iraqi officials to pick up the slack from their side. Numerous working level officials in the U.S. government, including political appointees, express enormous frustration that the United States is blowing potentially its last real chance to influence Iraq to move in the right direction and limit Iran's pernicious influence.

Pushing Back on Iran. The other approach that the United States might pursue to limit Iranian influence in Iraq either alone or in tandem with a greater effort to support Iraq in the future, would be to push back directly against Iran itself. Again, it is crucial to recognize that doing so entails far greater costs and risks because it could provoke an Iranian response.

In pursuit of this approach, the United States could embark on an aggressive, asymmetric campaign against Iran of its own. The United States could expand its support to the Iranian opposition, reach out to rebellious Iranian ethnic groups, mount covert operations against Iranian assets, employ cyber and information-warfare against Tehran, ratchet up economic sanctions, and oppose Iran diplomatically across the board. In truth, the United States appears to be doing virtually all of this albeit at relatively low levels. All of it could be intensified and expanded.[4]

The goal of such an effort in relationship to Iraq would be two-fold. First, a broad campaign along these lines might seize the initiative back from Tehran, forcing the Iranians to concentrate more on defending themselves and therefore reducing their ability to conduct their own asymmetric campaign against Iraq (or the United States or other American allies). Second, the United States could retaliate directly against Iran using these means whenever Iran made a particular move in Iraq, thus potentially deterring Iran and convincing it to rein in its agents in Iraq for fear of American retaliation directly against Iran.

There are a number of key uncertainties surrounding this course of action, at least as a solution to America's problems in Iraq. First, it is not clear how the Iranians will respond. Iran has a mixed record when it comes to being pressured by outsiders, particularly the United States: sometimes

[4] For greater elaboration on such a policy, see Kenneth M. Pollack and Ray Takeyh, "Doubling Down on Iran," *The Washington Quarterly*, Vol. 34, No. 4 (Fall 2011), pp. 7-22.

they counterattack, and sometimes they retreat. Karim Sadjadpour has suggested that the best way to understand this is that, "Iran does not respond well to pressure, but it does respond well to a LOT of pressure." For instance, as noted above, Iran believes that the United States is already conducting a low-level covert war against it and this may have been what provoked the purported assassination attempt against the Saudi Ambassador to Washington. This is a case of pressure on Iran triggering an aggressive Iranian response. On the other hand, Tehran has quickly drawn in its horns when it witnessed the ferocious American public response to its bombing of the Khobar Towers housing complex (in which 19 Americans were killed), when it experienced an American covert action in 1997, and when five of its intelligence personnel were apprehended in Iraq in 2005. Thus, a more aggressive effort along these lines could cause Iran to lash out or to back off, it is hard to know—although the evidence does suggest that a greater effort is more likely to produce the desired response than a lesser effort.

Second, this approach might have more merit when it comes to securing American goals with Iran related to its nuclear program than its influence in Iraq. Iran and Iraq are bound by geography, religious ties, trade, water and energy exchanges, common enemies, and several millennia of history. Iran has a wide range of subtle ways to exert influence within Iraq. It can shut off the flow of water to key Iraqi rivers or jack up the prices it charges Iraq for electricity. It can forbid Iranian pilgrims from journeying to Karbala and Najaf, where their spending is critical to the local economy. They can funnel weapons to a wide variety of Iraqi groups in ways that are difficult for the United States to perceive, let alone prevent. This is especially true now, after the removal of American military forces from Iraq has effectively eliminated the fine-grain situational awareness that the United States once possessed. Consequently, it may be very hard for the United States to eliminate Iranian influence, or even to know how much Iran is exerting at any given time.

The Challenge of Iran to America's Iraq Policy

There is nothing easy about this problem. Ambassador Ryan Crocker used to like to say, "Iraq is really, really hard, and it is really, really hard all the time." For its part, Iran is at least as equally difficult. Its opaque, Byzantine and even paranoiac political system make it unpredictable and deeply frustrating for its friends as well as its allies. It often seems to be a better candidate than Russia for Churchill's famous remark about a 'riddle wrapped in a mystery inside an enigma." By our many mistakes, stretching from the earliest days of 2003 to the latest hours of 2011, the United States has created opportunities for Iran to expand its sway in Iraq. Especially because of the dramatic shift in Iran's own leadership in 2009, that is very much to our own detriment and that of the Iraqi people. There is no easy solution to that state of affairs. We have only imperfect tools left to address the situation. But the worst course would be to not try at all.

Mr. CHAFFETZ. Thank you.

Dr. Maloney, you are now recognized for 5 minutes.

STATEMENT OF SUZANNE MALONEY, PH.D.

Dr. MALONEY. Thank you very much, Chairman Chaffetz, Representative Tierney, and the entire subcommittee, for the opportunity to discuss this very important issue of U.S. policy toward Iran.

I'm going to focus my remarks on the central question of today's hearing, and that is the track record of the current administration in addressing the challenges posed by Tehran. I will tell you that I see a sort of a good-news/bad-news story. And so I will talk a little bit about both the elements of success and the elements where we need tremendous improvement and talk about a few principles that one might consider in moving forward in terms of looking at policy toward Tehran.

It's notable that the Obama administration has come full circle, from a tentative embrace of diplomacy and engagement to a much more robust and effective international effort to pressure Tehran than has ever existed. This transformation is, in fact, quite typical. Every administration since that of President Carter, since the 1979 Islamic Revolution in Iran, has used a variety of tactics and implements at its disposal, everything from diplomacy to sanctions, under every single administration from both parties.

The good news is that the Obama administration has really achieved unprecedented success. We have seen the assembling of the widest and deepest international coalition of countries to deal with the threat of Iran. And I think what we have seen, particularly since 2010, is a real sense of momentum, that the international community has come together, that there is a real partnership, not simply between the United States and Europe but also between the United States and Russia and other countries as well, with China playing effectively a sort of nonconfrontational, more passive role with respect to sanctions.

I think that it's important to recognize, despite the fact that we have not yet achieved our objectives with respect to changing Iranian policy, that assembling this kind of a coalition is no small achievement. Never before in the history of the Islamic Republic, despite 32 years of egregious policies and offenses against both its own people and its neighbors as well as U.S. interests in the region, never before have we seen the willingness of the international community to jeopardize its economic relationships with the Islamic Republic in anywhere near the degree that we have today.

And we know that these sanctions are having an impact on Iran. The Iranians themselves, from the supreme leader on down, are saying so in a very public fashion. And they're taking actions to deal with it.

That, of course is the bad news, that the sanctions have imposed a financial—heavy financial and political cost, but they haven't yet convinced Iranian leaders to change their policies, to relinquish their nuclear ambition, and abandon their other reckless policies, or to engage in a really serious dialog with Washington.

There are a variety of reasons why this is the case: the political climate within Tehran, where we have seen the elevation of a

group of policymakers who, in fact, see sanctions as part of an international conspiracy and who believe, in fact, there is an existential demand on the regime to resist these sanctions. They are less prone than ever to bending under economic pressure or accepting the cost-benefit logic of sanctions.

And the Iranians also have tremendous capacity and a long history of working to mitigate and subvert sanctions. They are also quite adept at encouraging sanctions busting. And they have done quite a bit to exploit the disparity that exists in the international sanctions regime, whereby companies from countries such as China, which adhere to the bare minimum of U.N. Security Council sanctions but have yet to enact their own individual unilateral sanctions on energy investment in Iran, effectively have free rein to continue to invest in Iran today.

So, as a result, I think that the difficulty that we face is, sanctions are not going to have the impact that we want, that the kind of dual-track, carrot-and-stick effort to bring Iran to the negotiating table is less likely to work today than ever before.

For that reason, let me lay out five principles very quickly that I think are essential to moving forward, as we reassess U.S. policy at a time where it is, I think, a very opportune moment for doing so.

First, we must have multilateral cooperation. That is what has made such an important psychological and economic impact over the past 2 years since the latest U.N. sanctions, U.N. Security Council sanctions, and unilateral measures by a variety of countries. It's incredibly important in doing so that we bring and keep China on board in a much more robust way than we have to date. China plays the indispensable role in terms of shaping the Iranian future.

Second, we have to acknowledge and we have to articulate publicly, both to the American public and to our allies and partners abroad, that tough measures will entail tough tradeoffs. There is a lot of talk about crippling sanctions, but there is too often, I think, an optimistic presumption that we can—that those sanctions would have negligible impact on the very economic parameters of the U.S. market or of the international market. Oil markets are worldwide; oil supply is fungible. As a result, anything we do to impact Iran's ability to export its crude will have an impact on the price of oil here at home.

Third, we should never unilaterally take diplomacy off the table. Every administration has used diplomacy, and every future administration will. Measures that tie any administration's hand are irresponsible and counterproductive.

Fourth, the invocation of threats does little to advance our interests with respect to Iran. It, in fact, empowers the very people who we are looking to disempower in Iran.

Finally, we need to rethink the universe of possibilities for advancing political change within Iran. And to do so, we need to have a conversation that goes beyond the standard discussion around the discredited terrorist organization, the Mujahedin-e Khalq.

With that, I cede the floor. Thank you.

[The prepared statement of Dr. Maloney follows:]

at BROOKINGS

Testimony before the Subcommittee on National Security, Homeland Defense and Foreign Operations, Committee on Oversight and Government Reform, House of Representatives

"Progress of the Obama Administration's Policy Toward Iran"

Suzanne Maloney
Senior Fellow, Saban Center for Middle East Policy at the Brookings Institution

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Chairman Chaffetz, Ranking Member Tierney and Members of the Committee, I'm very grateful for the opportunity to discuss the issue of American policy toward the Islamic Republic of Iran. The disturbing new allegations surrounding Iran's efforts to acquire nuclear weapons technology and its involvement with terrorism underscore the importance of devising effective policies for addressing a country that has long been at the forefront of U.S. security interests in the Middle East and across the world.

In my testimony today, I will offer a brief overview of the current state of play within Iran, referencing both its complex internal politics and its position within a region that has experienced epic turbulence over the past year. I will focus my remarks, however, on the central question of today's hearing – the track record of the current Administration in addressing the challenges posed by Tehran. I will conclude by laying out a series of principles for enhancing the effectiveness of American efforts in dealing with Iran.

1. Understanding Iran Today

Two years after massive protests rocked the streets of Tehran and other Iranian cities, the Islamic regime has managed to retain its grip on power even as its neighborhood has been engulfed in historic change. The unrest that transpired in the wake of Iran's contested 2009 presidential election splintered its leadership, further alienated its population, and generated the most vigorous popular movement for political change since the 1979 revolution that brought it to power. Whatever remaining popular legitimacy the revolutionary state retained was shattered by the brutality wielded against peaceful protestors. The regime's internal political liabilities were exacerbated by considerable economic pressures precipitated by sanctions as well as decades of mismanagement. Moreover, Iran's long tradition of representative government, its highly-educated and politically-engaged population, and its relatively sophisticated internal debate around questions of authority and legitimacy gave rise to renewed hopes that Iran was on the brink of change for the better.

And yet the wave of popular movements for accountability and good governance that has toppled seemingly impregnable states across the Middle East has almost wholly bypassed Iran's Islamic Republic. With the exception of a few early protests, Iran has experienced very little of

the upheaval that has beset its neighbors over the course of the past year. The durability of the revolutionary theocracy is the product of a resourceful campaign by the Iranian regime to prevent the resurgence of any significant popular opposition. Molded by their personal experience with revolution, the leaders of the Islamic Republic have used intimidation, mobilization and efforts to buy off dissent through social spending in order to prevent the resurgence of popular activism.

Even as Iran's opposition remained largely dormant throughout the course of the early months of the Arab spring, the political frictions within the regime have ramped up sharply. The longstanding resentment toward President Mahmoud Ahmadinejad harbored by the traditional stalwarts of the Iranian revolutionary regime exploded into public view. The outcome of this infighting has only reinforced the role of Iran's supreme leader, Ayatollah Ali Khamenei, as the country's paramount authority. The fierce contention has opened new fissures among the political elite, but this has not yet substantially eroded the regime's capabilities for maintaining authority in the short term.

Faced with profound popular dissatisfaction and intra-elite tensions at home, the turbulence across the region has only reinforced the Iranian regime's determination to eradicate dissent and assert their influence across a changing Middle East. Despite their obvious vulnerabilities, Iran's dogmatic theocrats perceive the Arab uprisings in triumphal terms. From Tehran's vantage point, regional change has been a net positive so far. Several of the Islamic Republic's most determined regional adversaries were dispatched into exile, prison, or at minimum in a defensive crouch. This offers Tehran at least the possibility of new access in the Sunni Arab world, and the regime has sought to exploit the abiding uncertainty and undercurrents of mistrust for U.S. intentions that lie just beneath the surface of regional enthusiasm for change. The Arab spring has also racheted oil prices back up from a two-year downturn brought on by the global economic slowdown, and the instability premium will ensure Iranian revenues sufficient to ride out almost any pressures.

To be sure, the regional environment has also created new liabilities for Tehran. Whatever soft power Iran could claim in its own neighborhood has surely faded by the Arab embrace of democratic activism and government accountability. Iran's leaders have been exposed as tin-pot dictators, and their unflinching defiance of Washington rings far more hollow in a region where the mantle of heroism has been seized by the millions of ordinary citizens willing to risk their lives in pursuit of a better future. An even more immediate problem for Tehran is the violence in Syria, its only reliable Arab ally. Unrest in Syria jeopardizes the Islamic Republic's most trusted regional partner and its most reliable mechanism for resupplying its proxy Hezbollah and maintaining direct access into the political dramas of the Levant. Moreover, the scope and pace of Syria's devolution must be unnerving for Iranian leaders' confidence in their own capabilities for preserving control.

The unfolding regional drama has also revived the longstanding frictions between the Persian theocracy and one of its foremost regional rivals, Saudi Arabia. Beyond the recent headlines alleging Tehran's complicity in a conspiracy to assassinate the Saudi Ambassador to the United States in a Washington restaurant, a new cold war is erupting the Persian Gulf that will have ongoing implications for U.S. interests, regional security and the global economy. Saudi Arabia and other Arab states see Tehran as the beneficiary of American missteps and naiveté in the region, and are determined to thwart Iran's bid for hegemony. For their part, Iranian leaders have

warned darkly that pushback by the Saudis and other Arab states will only come back to haunt them. Both capitals increasingly view the contest for influence as an existential one, although both have also demonstrated more reluctance about the rupture than their rhetoric might suggest.

Amidst a region undergoing such epic change and riven by such determined rivalries, the outcome of transitions in two Arab states will have a decisive impact on the future. The first is Egypt, the traditional heart of the Sunni Arab world, whose unlikely eviction of Hosni Mubarak forever altered the premises of power and stability in the Middle East in a way that rivals Iran's own revolution a generation ago. If Egypt can navigate the contradictory imperatives of its current predicament and establish some functioning balance between security and democracy, it will go far toward creating a new model for the region – a center of gravity with deeply-rooted internal legitimacy and wide-ranging influence. The second key arena for shaping the future of the Middle East is Iraq, where the sectarian suspicions that infect the region remain potent and where American intervention has left a complicated legacy. Iran's vast sway within Iraq was a predictable and inescapable consequence of the American ouster of Saddam. However, no one – least of all Tehran, whose bitter history with its neighbor reinforces the limitations of sectarian identity – should believe that Iraq's future rests primarily in Iranian hands.

2. Assessing the Obama Administration's Policy toward Iran: The Good News

The resistance and persistence of the Islamic Republic presents a greater concern within the region than at any time in the past two decades, one that is exacerbated by the fluidity across the Arab world and the corresponding dilemmas for the exercise of American influence. The Obama Administration can make a persuasive claim to unprecedented successes in dealing with Iran, and yet the ultimate objective of U.S. policy – eliminating the threats posed by the regime's pursuit of nuclear capability, support for terrorism, and abuse of its own citizenry – remains as distant as ever. To develop to a path forward that advances this objective, it is necessary to assess the approach and the tactics of the current Administration.

The Administration's policy toward Iran has come full circle from its earliest inceptions. President Barack Obama embraced the notion of engaging adversaries during his 2008 campaign, and his initial efforts on Iran were designed to demonstrate American receptivity toward a negotiated resolution of the nuclear issue, and by extension the gamut of bilateral grievances, to the Iranian leadership. However, Iran's lack of reciprocity and the regime's vicious response to the June 2009 unrest together extinguished the appeal of any new broad overtures within the Administration. Later that same year, Tehran's retraction of a tentative fuel swap agreement that was intended to serve as a confidence-building gesture on the nuclear issue truncated the Administration's patience for negotiations with Iran.

President Obama had indicated from the outset that engagement would be given an early deadline to prevent Tehran from utilizing the process to dodge, and by the end of his first year of the Obama presidency, U.S. policy toward Iran had reverted to the familiar terrain of economic sanctions. In this way, an approach initially intended to prioritize engagement quickly gave way to one that has mobilized the most robust and multilateral array of pressure on Iran in more than three decades.

It should be noted that this transformation in the U.S. approach to Iran is not unusual; consider, for example, the arc of the preceding Administration, which shifted from unprecedented direct diplomacy to absolute isolation and then part of the way back again to diplomacy over the course of eight years. A similar evolution transpired over the course of the Clinton Administration, and in fact during the terms of every American President, from both parties, since 1979. The essential framework for U.S. policy toward Tehran was established during the earliest hours after the November 1979 seizure of the U.S. Embassy and its staff, when the Carter Administration's crisis team launched a two-track strategy incorporating both pressure and incentives to negotiate. From that time forward, each U.S. president has indulged in fine-tuning, but the basic binary logic of U.S. policy toward Iran has remained the same.

In its embrace of pressure and effort to construct a robust regime of economic sanctions on Iran, the Obama Administration built upon a foundation established by the Bush Administration. This involved several components, including the use of executive prerogative to designate Iranian entities for their association with terror, under measures adopted after the September 11 attacks, as well as enhanced counter-proliferation sanctions. These unusually far-reaching restrictions effectively precluded foreign banks with U.S. interests or presence from doing business with designated institutions in Iran. While extraterritorial sanctions had provoked European opposition in the past, these measures received little overt pushback from either the diplomatic or financial community. The surprising degree of compliance reflects a combination of effective U.S. diplomacy with allies, a more skeptical international mood toward Tehran, and the obliqueness of the measures, which ostensibly targeted merely the Iranian institutions but indirectly imposed constraints on any of their foreign business partners.

These measures were accompanied by a concerted campaign, primarily focused on financial firms in Europe and the Gulf, intended to highlight both the increasing legal roadblocks as well as the reputational risks of investing in Iran. The outcome was dramatic; after more than two decades of trying to bring the rest of the world on board with American efforts to isolate and pressure Iran, Washington helped launch a wave of divestment from Iran simply by capitalizing on the unique role of the U.S. financial system to magnify the impact of U.S. restrictions. The U.S. federal measures were complemented by the proliferation of state-level measures, the cumulative effect of which was to reinforce the disincentives for any firm with American interests to deal with Iranian counterparts.

The capstone in the Bush approach to Iran was of course its long, arduous drive to bring the Iranian nuclear file before the United Nations Security Council. Achieving this objective ultimately required the Administration to reverse its prior refusal to negotiate with Tehran as well as a relaxation of its stance toward future Iranian nuclear activities. These concessions won Washington a trio of successive UNSC sanctions resolutions that began amassing international consensus around penalizing Iran and specific institutions over the nuclear issue.

Despite some stylistic differences, the Obama Administration has retained the second-term Bush policy framework for Iran. The designation of Iranian individuals and institutions under the counter-proliferation and counter-terrorism statutes remains a powerful tool for creating ripple effects across the global landscape of the country's trade ties. Beyond these steps, however, President Obama has sought to enhance the persuasive power of U.S. policy – initiating early overtures toward Tehran as a means of demonstrating to Europe the seriousness of American readiness, making key compromises on issues at stake with Russia to draw Moscow into a more

cooperative relationship on Iran, and investing in a protracted negotiation of the latest (and presumably last) UN resolution on Iran, Security Council Resolution 1929, so that it would serve as a platform for additional measures by individual states as well as the European Union. The advantages of this synergy cannot be underestimated, and in many ways those subsequent unilateral sanctions are far more significant than the UN measure itself. Washington took other steps to encourage cooperation among "like-minded states" in Europe and in Asia, notably by utilizing sanctions policy to highlight human rights abuses in Iran and to restrict the government's access to technology used to control the free flow of information.

Notable new measures include the July 2010 Comprehensive Iran Sanctions and Divestment Act (CISADA), which includes a rescission of the prior exemption of caviar, carpets and pistachios from U.S. sanctions, as well as a new array of extraterritorial measures including restrictions on sales of refined petroleum products to Tehran. In part because CISADA was enacted so quickly on the heels of the UN resolution, there was some grumbling, particularly from the Russians, that Washington was exceeding its mandate. Still, the unilateral American actions did not provoke intra-alliance tensions or defections from the overall cooperation with the campaign of pressuring Tehran from the international powers.

It must be noted that the achievement of a truly robust multilateral sanctions regime is no small feat. The persistence of sanctions as an instrument of American policy toward Tehran has overshadowed that the international community has rarely if ever adopted similar tactics toward the Islamic Republic. Beginning with the seizure of the U.S. Embassy 32 years ago this month, Iran's revolutionary regime has established a long track record of egregious offenses and provocative behavior. And throughout that time, no capital other than Washington proved willing to jeopardize their economic interests with respect to Iran in any meaningful fashion. For nearly all of the past three decades, sanctioning Iran has largely been the lonely work of the U.S. government.

In light of that history, the assembling of a broad coalition committed to real penalties against Tehran – including a global ban on conventional weapons sales, a European withdrawal from investing in Iran's energy sector, and wide-reaching restrictions on dealing with Iranian banks, among other measures – should be understood objectively as a historic achievement. It reflects the deep investment in diplomacy principally, but by no means solely, by the Obama Administration in shifting the parameters of international cooperation on Iran. The newfound international willingness to enact consequential restrictions against Iran also points toward the deepening frustration over Iran's nuclear obfuscation as well as the post-2009 hardening of European expectations of domestic moderation in Iran. The landscape also benefited from a Chinese leadership determined to avoid a breach with Washington over Iran, and the success of both the Bush and Obama Administrations in extending the reach of unilateral American restrictions without alienating key allies by focusing on relatively opaque financial mechanisms and targeted designations of the banking sector.

The consequences of the sharpened sanctions regime can be seen across the board within Iran. Sanctions and export controls have played a subtle but significant role in slowing Iran's capability to acquire the technology needed for its sophisticated nuclear program. Collectively, the multilateral and individual state sanctions have taken an enormous toll on the Iranian economy – driving hundreds of foreign investors out of the Iranian market place, sparking

periodic crises for the Iranian currency, and significantly escalating the cost and inconvenience of doing business with or in Iran. Trade with the regime's traditional trade partners in Europe has declined precipitously, and sanctions have forced Tehran to recapitalize its banks and seek out creative mechanisms – including barter instruments – for increasing proportions of its considerable trade finance requirements. Indian imports of Iranian gasoline went unpaid for months, for lack of a legally viable payment process, while Iranian jets have been grounded in Europe as a result of U.S. restrictions on sales of refined petroleum products. With the exception of the Chinese, most major international energy firms have exited Iran after a frustrating decade of reengagement, and Iran's energy development has stalled far behind its stated goals, which will negatively impact its production and export options. A wide range of Iranian politicians have publicly acknowledged the increasing hardships posed as a result of the restrictions, including Ayatollah Khamenei.

Sanctions are not the sole mechanism of U.S. policy, however. The Administration has buttressed economic sanctions with other forms of pressure intended to alter Iran's decision-making calculus. A wide variety of covert tactics to forestall Iran's nuclear development have been attributed to Washington and/or its allies, including the Stuxnet computer virus. Working with partners in Europe and Asia, Washington has achieved a small measure of success in ensuring that the deeply-felt concerns about Iran's domestic policies are not overlooked amidst international attention to the nuclear issue, through successful efforts to establish a United Nations Special Rapporteur for Human Rights in Iran and other measures in multilateral bodies. Even as pressure on the regime has intensified, the Administration has sought new means for reaching out to ordinary Iranians, establishing the first Persian language spokesperson for the State Department, implementing programs to expand Iranians' access to information and technology, and providing new facilities to obtain multiple-entry visas for young Iranians studying in the United States. As a result of all these efforts and the tangible evidence of impact within Iran, for the first time since the 1979 inception of the revolutionary theocracy, a sense of real momentum and cohesion among the international community has begun to coalesce around the threat posed by Tehran.

3. Assessing the Obama Administration's Policy toward Iran: The Bad News

Despite this impressive tally of achievements, the primary objective of these efforts has continued to elude U.S. policymakers and their allies. Even the toughest sanctions in Iran's post-revolutionary history failed to have swift impact on Iran's most dangerous policies, in particular its dogged pursuit of nuclear capabilities that belie its government's protestations of civilian purpose as well as its efforts to undermine American interests and to subvert democratic movements at home and abroad. Sanctions have imposed heavy financial and political costs on the Islamic Republic, but they have not convinced Iranian leaders that their interests would be better served by relinquishing their nuclear ambitions, abandoning their other reckless policies, or even opening a serious dialogue with Washington. This is a function of the complex political transformation within Iran over the course of the past decade, the regime's well-honed capabilities for evading and insulating itself against sanctions, and of course the momentous changes that have swept the broader region.

Historically, Iranian leaders have tended to reject the significance of sanctions, at least rhetorically, and they have celebrated the country's capacity to withstand external economic

pressure, particularly the measures imposed on Iran by Washington. In the immediate aftermath of the revolution, this ethos was philosophically consistent with the revolutionary leadership's quest for independence and its ambivalence about capitalism and international entanglements. The rupture of Iran's financial relationship with the United States and the American ban on exporting military equipment to Iran spurred Tehran to invest in its domestic capacity, particularly the security sector.

Over time, sanctions have been integrated within the regime's ideological narrative. Like the war with Iraq in the 1980s, economic pressure represents another component of the international conspiracy to undermine the Islamic Revolution, a plot that has been foiled by Iran's wise and righteous leaders, who have used sanctions to the country's benefit by strengthening its indigenous capabilities and sovereignty. In this respect, the hardliners may perceive merely surviving new sanctions—even at a significant price—as victory, and will portray it as such to their base. These proclivities have been redoubled as a result of the historic transformation that Iran underwent over the course of the past two decades. The coming-of-age of Iran's war generation has empowered a cohort that romanticizes the regime's first revolutionary decade and the experience of the solitary struggle to defeat Saddam Hussein against overwhelming odds. They are deeply suspicious of the international community and remain convinced that Washington is bent on Iran's subjugation. They have prioritized strategic advantage over economic growth, and are infatuated with the notion that the East can more than compensate for any material opportunities that are lost as a result of the departure of Western companies. As a result, Tehran is less receptive than ever to the cost-benefit logic of sanctions, particularly insofar as they are limited in application.

Beyond the blustering rhetoric, the historical record offers very limited reason for optimism about the efficacy of economic pressures in moderating Iran's foreign policies. Since the revolution, Iran has experienced a number of episodes of severe economic hardship, as a result of volatile oil prices and the severe political crises that ensued after the revolution and during the war with Iraq. None of these episodes of economic pressure induced a significant turn toward prudence or compromise in Iran's approach to the world; instead, when purse strings tightened the Iranian regime coalesced and rallied the public. The current political context is, of course, unique, but a review of Iranian history dispels any illusion that Tehran will automatically buckle when its financial circumstances become problematic.

Moreover, Tehran has a long experience in blunting the intended impact of economic pressure. Predictably, the conservative power structure has responded to the latest volley of sanctions in a multifaceted fashion, including defiance, mitigation, aversion, insulation and a self-serving public diplomacy campaign. The regime is resourceful, adaptable, and well-versed in insulating its preferred constituencies and identifying alternative suppliers. Through trade and mercantilist diplomacy, Iran has deliberately sought to expand its network of trade partners and reorient its trade and investment patterns to privilege countries with international influence and minimalist interest in political interventions. Iranian leaders are experienced at replacing prohibited suppliers, finding alternative financiers, and absorbing additional costs in order to mitigate the impact of sanctions.

The threat of new measures has persuaded Tehran to take a number of steps over the years to mitigate its vulnerability to external economic leverage. In particular, Tehran instituted a

range of measures to minimize gasoline consumption and ramp up refinery capacity in a bid to reduce the country's reliance on imported petroleum products, and has launched a historic revamping of the longstanding and profoundly debilitating price subsidies on various vital consumer goods, including bread and gasoline. These steps have been a clearly articulated priority for Tehran for at least several years, specifically intended to undercut the impact of international restrictions.

Another factor limiting the efficacy of the current sanctions regime is the divergence between the terms of the UN sanctions and the harsher measures adopted by the U.S., Europe, and several other countries; this disparity has created an uneven playing field in Iran's energy sector that profoundly advantages China, which may prove unsustainable over the long term. China's rapidly growing economy was already overtaking Iran's traditional trade partners, and now European companies are already grumbling about pressure to forfeit opportunities where their Chinese competitors offer quick substitution with impunity. Tehran has exploited this dynamic, seeking to expand its economic ties in ways that complicate any prospects for Western leverage. If Washington seeks to use the multilateral sanctions regime as a longer-term instrument of containment and deterrence, incentives for 'sanctions busting' are likely to increase, and in turn will blunt the impact on Iran.

Finally, despite the Obama Administration's success to date in coalescing a robust multilateral sanctions regime, there is limited international appetite for adopting new measures despite Iran's continuing noncompliance. It is likely that 2010 will represent the high water mark for international cooperation on sanctioning Iran. Already unnerved by Western intervention in NATO and a season of instability across the Middle East, Moscow and Beijing are signaling their reluctance to press Tehran further. Underpinning the international community's historical reluctance to embrace sanctions is a divergence in views on Iran itself and on the efficacy of economic pressures. Few countries beyond the United States have consistently treated the Islamic Republic as a pariah state; on the contrary, important international actors such as China and Russia have invested significantly in developing a deep relationship with a country viewed by many as the region's natural powerhouse. And while energy interests and other economic enticements, including Iran's role as a market for Russian arms, have proven a powerfully binding force, dismissing international resistance to sanctions as purely mercenary is overly simplistic. In Moscow, Beijing, and other capitals, Iran remains a strategic ally in a critical region of the world, and they are loath to jeopardize their relationship with this important asset. They share a resentment of American prerogatives and a mistrust of Washington's intentions.

Achieving international consensus on tough sanctions is further complicated by divergent perspectives on the likely consequences. Traditionally, Washington has argued that increasing the costs of Iranian malfeasance can alter the regime's policy calculus and dissuade problematic policies. This view of sanctions as an instrument that can affect a recalcitrant regime is not widely shared within the international community. In particular, Moscow and Beijing have repeatedly invoked concerns that rather than inducing moderation, sanctions would provoke further Iranian radicalization and retaliation, either via direct actions against governments that adhere to any boycott or by accelerating their nuclear activities and withdrawing from the Nuclear Non- Proliferation Treaty. Moscow and Beijing's reluctance is also informed by their long memories of their own countries' experiences with sanctions and other forms of Western economic pressures.

This ambivalence runs deep even outside the historic hedge countries, such as Russia and China. Even within many European polities, the legacy of three decades of "constructive engagement"—an approach that endeavored to moderate Iranian policies by drawing the regime into a more mutually beneficial relationship— has left a residue of discomfort among some leaders with sanctions as the primary policy instrument. In addition, Iran's neighbors in the Persian Gulf region, who revile the Shi'ah theocracy and would prefer almost any outcome to a nuclear-capable Iran, remain cautious toward Iran, based on fears of Iranian retaliation and concerns about preserving their own economy stability in the midst of epic global uncertainty.

Ultimately, the impediments to American sanctions represent tactical challenges – significant ones, no doubt, but not permanently insurmountable. What is perhaps more disconcerting is the deeper dilemma facing the Administration's approach to Iran – the fundamental disconnect between its strategic objective and any realistic assessment of what is achievable. The 'dual track' approach offers no viable end game for dealing with Iran's current leadership. The basic objective of the U.S. approach, to cause the Islamic Republic to willingly concede its nuclear program and other policies, is almost certainly untenable within the current political context in Tehran. Under the present internal and regional circumstances, it is almost inconceivable that Iran's revolutionaries can or will make historic compromises with the West. An Iranian regime with innate mistrust of the West cannot be nudged into a constructive negotiating process by measures that exacerbate its vulnerability. Particularly not in a climate of such dramatic regional change, which has only heightened Tehran's paranoia. No state that watches the international community bombard Libya will ever concede its nuclear advantage in exchange for rapprochement and trade ties.

4. Future Policy Options

The coming year offers a useful opportunity for a rethink of the American approach to Iran. Incremental intensification of the sanctions regime is not likely to revise Iran's desperate quest toward the nuclear threshold. More of the same is not the answer, and sticking stubbornly to the essential framework of dual track or carrot-and-stick diplomacy that has served as the basic American formula for dealing with Iran since 1979 is unlikely to produce manifestly more effective results. This approach is minimally sufficient, in the sense that it has successfully impeded Iran's most problematic policies without actually generating much progress toward reversing them or altering the regime's political calculus. However, it will fail to successfully resolve the most urgent American concerns about Iranian policies.

In crafting a future approach to dealing with Iran, there are a few basic principles that should remain paramount for U.S. policymakers. First, **multilateral cooperation is vital** to influencing Iran's bottom line as well as its strategic decision-making. As detailed above, the historical efficacy of sanctions has been undermined by their limited scope of applicability. The Obama Administration has made substantial progress toward greater international cooperation, but Washington risks alienating crucial allies through adoption of more indiscriminate measures.

In this respect, China's continuing investment and trade with Tehran presents the single most important avenue for shaping Iran's future. Beijing is driven by economic interests, as well as an often-overlooked rapport with Iran's grievances, but underlying fissures between two countries can provide opportunities for the international community to enhance cooperation on thwarting

Iran's nuclear ambitions. Yet ties between China and Iran hardly are ironclad. Beijing has moved cautiously in Iran, and for its part, Tehran is ambivalent about China. Washington has long treated Beijing as an ancillary dimension of its Iran diplomacy, focusing instead on Russia as the crucial actor. But now, with China's in increasing consequence in Iran's economic prospects, China must move to center stage for U.S. policy deliberations.

Second, Washington must recognize – and must articulate clearly to both its diplomatic partners and to the American people that – that **tough measures toward Tehran will entail tough tradeoffs** for U.S. interests. American policymakers frequently endorse the notion of "crippling sanctions" against Iran, but few acknowledge that there is simply no mechanism for exerting game-changing pressure on Iran without imposing unpredictable and probably unpleasant consequences for the global energy balance and the worldwide economic recovery. The enthusiasm for sanctioning the Iranian Central Bank appears to disregard several unavoidable realities: that China, India and other energy-hungry states will oppose measures that pose any meaningful impediment to Tehran's ability to market its 2.4 million barrels per day in crude oil exports, and that Americans will feel the effects of such every time they go to the gasoline pump. Embracing these measures means persuading the American people and the international community to accept the potentially high costs associated with them.

Third, **Washington should never unilaterally take diplomacy off the table.** As I've suggested, I am profoundly skeptical about the current Iranian leadership's willingness or capacity to engage in serious negotiations over the contours of its nuclear ambitions or other problematic policies in the region. And yet the past three decades demonstrates consistently that an open dialogue on the issues of U.S. concern has tangibly advanced American interests. As suggested above, every American president since 1979 has utilized a variety of tools for influencing Tehran. This is a nonpartisan issue. Both Democratic and Republican administration have intensified sanctions; both Democratic and Republican Presidents have sought direct dialogue with Iranian leaders. Measures that would tie the hands of this or any future Administration in dealing with the challenges posed by Iran are tremendously irresponsible and explicitly counterproductive.

Fourth, the use of force must remain within the universe of policy options for dealing with any urgent threat, but the intemperate **invocation of threats does little to advance U.S. interests** or those of the international community in ensuring a peaceful, prosperous Middle East. Threats that may well be intended to influence the calculations of third countries and bolster support for non-military pressure on Iran have an unfortunate way of reinforcing the paranoia of Iran's current leadership and encouraging them to respond in kind. Moreover, such an environment is incredibly debilitating for the remaining opposition in Iran and only serves to empower a leadership that may even welcome an attack as a means to bolster its legitimacy and its grip on power.

Fifth, Washington should **rethink the universe of possibilities for advancing political change within Iran**. The uncomfortable truth is that the Obama Administration got it mostly right with its low-key response to the emergence of a powerful indigenous Iranian opposition in June 2009. Not even the most ardent Iranian democratic activist can make a persuasive argument that more forceful American rhetoric or a closer embrace of the Green Movement at the time

would have facilitated a different outcome, and it remains profoundly unclear whether and how U.S. support would advance the aim of political change in Iran.

Still, it is a travesty that most of the discussions surrounding the prospects for democracy in Iran have occurred in Washington in recent months have focused on the discredited terrorist organization, the *Mujahideen-e Khalq*, and their handsomely rewarded American advocates. A century of Iranian struggle a representative and responsible government warrants a serious conversation, informed by individuals and institutions with first-hand understanding of Iran's current internal dynamics, on the question of what if anything the international community can do to advance a better future for Iranians.

Mr. CHAFFETZ. Thank you.

I know you all had much more to say, but I appreciate the concise nature. And 5 minutes is difficult with such a broad and complex issue such as this.

I'm now going to recognize myself for 5 minutes, and then we will have other Members proceed with the questioning.

And, Dr. Maloney, I really appreciate the comments you made. I think I agreed with a lot of your points.

To suggest that there has been, in your words, unprecedented success, I just—I beg to understand or I just don't understand where you think there has been unprecedented success, other than, you know, maybe getting some European countries to say, hey, we support you.

Even when we list the five key points, one of the critical nature—you mentioned China. China is not coming along. China has not been helpful and persuasive in this. Do you see any sense that China, being such a pivotal role in close proximity, obviously, to Iran, that they are in any way, shape, or form helping us in any way?

Dr. MALONEY. I think, first, that the U.N. sanctions Resolution 1929, which was approved in June 2010 was, in fact, much more robust and much more meaningful. It includes a conventional arms ban. It included measures that facilitated European Union sanctions that effectively preclude any European investment in the Iranian energy sector. That is unprecedented. It's important. It has a real impact, both economically and psychologically. The Iranians would much prefer to deal with European companies, ultimately.

In terms of Chinese cooperation, I think, in fact, we have seen quite a bit. They were cooperative during the process of the negotiation of U.N. Security Council Resolution 1929. They have gone slow with their investment. They have refused to sign new deals with Iran. But they do continue to do business; they're not legally prohibited from doing so.

And that is, I think, where all the upside potential is in dealing with Iran, in making the point that the international community is united. It's very, very important that we persuade the Chinese to go beyond the current U.N. Security Council sanctions measures.

Mr. CHAFFETZ. Thank you. And I guess my concern is, I don't think that we've been doing that.

Mr. Dubowitz, let me go to you. In your testimony, you list 18 firms connected to the Islamic Revolutionary Guard Corps [IRGC], which form part of the crude oil supply chain.

These firms' activities were detailed in a report from the Foundation for Defense of Democracies to the administration back in February. To the best of your knowledge, has the administration taken any action against the 18 firms noted in that report?

Mr. DUBOWITZ. You're starting to see some action. They sanctioned Tidewater, which is the largest ports operator in Iran. I think that's important, it's consequential.

But there are literally hundreds of IRGC firms that are dominant players in the oil supply chain, including the largest Iranian energy front company in the world, the National Iranian Oil Co. [NIOC], which is presented as a state-owned institution and is usu-

ally the counterparty on an oil trade, but the IRGC is a dominant player in the Iranian energy industry, including in NIOC.

And so I think that the administration should move ahead and sanction NIOC and other IRGC players in the oil supply chain and send a message to what I call white-hatted companies—those who have U.S. interests, who care about their reputation, who don't want a front-page story in the Financial Times that they're doing business with the Revolutionary Guard Corps—and send a message that if you're buying oil from Iran, you're buying it from the Revolutionary Guard Corps. And that's bad for business, it's bad for your exposure, it's bad for your reputation.

We could rapidly accelerate the pace of designations. The administration could do much more and do it very quickly and, in doing so, send a message that we will not impact supply of oil, but we will go after price. We will put the remaining buyers, including the Chinese buyers, in a position where they will have stronger negotiating leverage to force a discount on the price of oil without taking one barrel of Iranian oil off the market.

I agree with Dr. Maloney, we shouldn't be going after physical supply, we shouldn't be spooking oil markets, we shouldn't be doing anything that sends a message that we'll be taking 2.3 million barrels of Iranian oil off the market, but put the remaining buyers in a stronger negotiating position. I have a lot of confidence in Chinese oil traders that they will drive ruthlessly for price discounts if they have the Iranians, figuratively and literally, over a barrel.

Mr. CHAFFETZ. Thank you.

Dr. Pollack, let's talk about what is going to happen at the end of the year and the concerns that the Iranians will redirect many of their attacks. You know, we got 16,500 people that will be left there starting January 1st, many of these contractors. Let's talk a little bit more, if you will, about the ramifications of what you see Iran doing now.

Dr. POLLACK. Thank you, Mr. Chairman. I think this is a critical question moving forward.

Having spent quite a bit of time in Iraq and been rocketed, been mortared, this is not something to take lightly. Muqtada al-Sadr has already announced that the American Embassy should be considered a residual occupying force and should be resisted as staunchly as the American troop presence was.

What we have seen is a growth in Iranian-backed capabilities among groups like Asaib Ahl al-Haqq, Khataib Hezbollah, the Promised Day Brigades. And what we have seen is very little willingness on the part of the Iraqi Government to actually crack down on these because of its own complicated internal politics.

I don't see any of that changing moving forward except that our ability both to influence the Iraqi Government to get the things they need to do is going to be dramatically diminished. It took intervention by the administration and, in particular, General Austin to get the Iraqis to do anything over the summer, and even that has tapered off since then. And what's more, our ability to respond directly is going to be dramatically undermined. No matter how many Black Hawk helicopters Triple Canopy may have, they are not going to have the same capability that the Apaches, that our current forces have.

Mr. CHAFFETZ. Okay. Thank you. My time has expired.

I will now recognize the gentleman from Massachusetts, Mr. Tierney, for 5 minutes.

Mr. TIERNEY. And with your deference, Mr. Chairman, I am going to defer to the ranking member of the full committee. I think his schedule——

Mr. CHAFFETZ. Absolutely. Rather than do that, we will recognize the ranking member, Mr. Cummings, for 5 minutes.

Mr. CUMMINGS. Thank you very much for yielding.

Dr. Maloney, in your written statement, you say that there is simply no mechanism for exerting game-changing pressure on Iran without imposing unpredictable and probably unpleasant consequences for the global energy balance and the worldwide economic recovery.

Dr. Maloney, what do you think of Mr. Dubowitz's claim that his approach to tougher sanctions on Iran's oil sales does not risk driving up the price of oil?

Dr. MALONEY. I haven't investigated the modeling that he has compiled, but what I have seen and read of the mechanism that he proposes is that many experts on oil markets suggest that it would have an escalatory impact on the price of oil both here and around the world.

Mr. CUMMINGS. And, Dr. Maloney, do you think that significant new sanctions on Iran's oil sales are worth the risks of endangering the global economic recovery?

Dr. MALONEY. I think we have yet to see that this regime in Tehran is susceptible to economic pressure in terms of changing its foreign policy.

I was testifying before this subcommittee 2 years ago, and people said that refined petroleum products, cutting off supply of gasoline to Tehran would be an Achilles' heel and change its posture. We did not see that, in fact, occur.

I am not optimistic that incremental measures, even if they make Iran's fiscal conditions more difficult, will alter their approach to their security policy.

Mr. CUMMINGS. So you just think they are hard-nosed?

Dr. MALONEY. I think that this regime and this current leadership in Tehran is tied to—its approach to the world is deeply paranoid and defensive. Looking at the regional environment, looking at what's happened in Libya, they are unlikely to bargain away their nuclear advantage or any of their other policies. They see these as existential defense mechanisms against a world which is aligned against them.

Mr. CUMMINGS. Now, the Obama administration can make a persuasive claim to unprecedented successes in dealing with Iran, and yet the ultimate objective of U.S. policy—eliminating threats posed by the regime's pursuit of nuclear capability, support for terrorism, and abuse of its own citizenry—remains as distant as ever.

Dr. Maloney, do you believe that further economic sanctions are necessary for the United States to make progress in achieving this goal?

Dr. MALONEY. I think sanctions which bring the entire world together to send a message to Tehran will have an impact over time, but I think we also have to recognize that they also have an impact

on our own economy. Iran is capable of change, but the level of impact that we need to have is one that will involve the entire international community coming together in a united fashion.

Mr. CUMMINGS. Speaking of that international community, I think you said that the fact that all of these nations have come together with regard to this effort is unprecedented. Do you see any threat to that cohesion?

Dr. MALONEY. I think as sanctions endure and the fact that the Chinese can continue to do business in Iran, even if they have been relatively cooperative to date in terms of not expanding their posture in Iran since the 2010 U.N. Security Council resolution, that will encourage other countries and companies to sanctions-bust.

In particular, I would look toward Russia, which is also not susceptible to other sanctions at the moment. The leadership is not inclined to accept them, and they have no unilateral sanctions which preclude their energy companies from investing in Iran's energy sector. I would suspect that over time, as China continues to do business in Iran, the Russians will look to expand their own position there.

Mr. CUMMINGS. Well, would unilateral sanctions by the United States undermine the progress that was made in convincing the international community to participate in a comprehensive sanctions regime?

Dr. MALONEY. Sanctions that make the price of oil more expensive for customers of Iranian crude will alienate those customers, in particular China and India.

Mr. CUMMINGS. Uh-huh. And therefore?

Dr. MALONEY. And, therefore, they will make it much more difficult for us to attain the level of international cooperation that's necessary to drive a decisive message to Tehran.

Mr. CUMMINGS. Well, in the wake of the assassination of the Saudi Ambassador to the United States and the recent report by the International Atomic Energy Agency, some have called on Congress to pass strict sanctions against and to limit diplomatic communications with Iran.

Mr. Dubowitz, do you believe Congress should pass strict sanctions legislation that eliminates the administration's ability to apply sanctions when needed and prevents further attempts at diplomacy?

Mr. DUBOWITZ. Well, Ranking Member Cummings, I'm very much focused on whether sanctions can actually work. Whether the United States should be talking to the Iranians and what they should be talking about is up to the administration. What I want to do is respond to the point about sanctions.

I ultimately do not think sanctions will force the Iranian regime to change its risk-reward calculus with respect to a nuclear weapon. Let me be clear and on the record on that. I do think that we have a moral and strategic responsibility to try and to exhaust all peaceful alternatives. Otherwise, perhaps everybody on this panel will agree, we may have to move to more coercive methods.

What I want to suggest with respect to oil sales is that there is a way to do this. Instead of only punishing greed—our sanctions regime is always designed to punish greed, to punish the self-interest of companies that want to continue to do business with Iran—what

I am suggesting is that there may be an opportunity to leverage greed; in other words, to shrink the number of buyers for Iranian oil using a variety of methods, both unilateral and multilateral, designed to actually put the Chinese and others in a position where they can buy all the oil they want from Iran, but they have stronger negotiating leverage because the pool of potential buyers of Iranian oil is shrunk.

And we can do that through a variety of ways that have already been used multilaterally. For example, the Iranian Revolutionary Guard Corps. The idea of designating IRGC companies that are active in the Iranian economy is something that has received overwhelming international support, from the United Nations, from the EU, the United States, Canada, Japan, South Korea.

In fact, former Under Secretary Stuart Levey, his successor, Under Secretary David Cohen, are using exactly this method to persuade international financial institutions to stop doing business with IRGC banks. I'm suggesting we do the same thing in the crude oil supply chain: Designate IRGC entities and then threaten sanctions against companies that do business with the IRGC.

The reality is white-hatted companies—Europeans, Japanese, some South Korean refineries—will respond to that pressure. The Chinese and others will not. But that's fine. Let them continue buying Iranian oil, let them drive for price discounts, let them not impact physical supply. If the Congress and the administration is too aggressive in calling for sanctions against physical supply, then I agree with Dr. Maloney, what you're going to see is a spike in oil prices. But if we make the case that this is about price, not about supply, I think we can have a much better alternative. And if it doesn't work, no one could argue that countries threatened by Iran have not exhausted all peaceful alternatives.

Mr. CUMMINGS. Thank you very much.

Mr. CHAFFETZ. Thank you.

I now recognize the gentleman from Massachusetts, Mr. Tierney, for 5 minutes.

Mr. TIERNEY. Thank you.

Dr. Pollack, President Bush entered a deal or arrangement, contract with the Iraq Government that we would have our troops out at the end of 2011, and President Obama has been trying to fulfill that commitment, I believe.

So, given that background, you know, the President Bush agreement to get the troops out by that point and the Iraqis' apparent unwillingness to amend that in any sense of the way, am I hearing that your response to this is that, at this point, the best that we can do in terms of that is to try and give some useful and robust assistance from the United States to Iraq to try to help them resolve their internal problems and strengthen their government and their ability to withstand pressures from Iran?

Dr. POLLACK. First, Congressman, I would certainly agree that there have been a long, painful litany of mistakes made in American policy toward Iraq, and they begin from the very early days of the Bush administration's focus on Iraq. It is certainly the case that the hand left to the Obama administration was a weak one. Nevertheless, I think that we have made—we have created additional problems for ourselves since then.

There's no question that we are where we are. There is no question that Iran's influence in Iraq has increased and will likely increase as our troops withdraw. The best that we can hope for is to help moderate Iranian behavior, and the best way to do that is to strengthen Iraq's own internal politics.

That is going to be difficult in an era of declining American resource commitments to Iraq. And, therefore, we have to act as creatively as we possibly can. Much of what I have proposed, much of what is in my written testimony is about how we find creative ways to do that, to do things by giving things other than just money: know-how, diplomatic assistance. But one that's also worth thinking about, the position the Iraqis will likely have the ability to buy it at some point in time, is military assistance, which the Iraqis need and, as we have seen in Egypt, can play an extremely important role in helping shape Iraq's political development, which, as I have stressed, is the key to keeping Iran out.

Mr. TIERNEY. Thank you for that.

Mr. Dubowitz, now I am going to call on your integrity to help us out here. We don't have a witness up here who can apparently counteract your theory. You know from having put your position out there that other people have rebutted it in some sense. I am sure you are fully aware of that.

Do us the favor, if you would, of presenting what those rebuttals are, you know, what issues do people raise with your argument. And then again I will offer you the chance to rebut them back and give your position again. But I am curious to know what people say. When you say this is the way to do it, how do they couch the way that they think it is going to drive up international prices and why? Is it because oil is fungible on the market? Is it because they just think that China will come in and buy up the 2.3 billion and it won't be any big deal?

If you would.

Mr. DUBOWITZ. Yeah, no, there are certainly some weaknesses to the argument. I think the first is that the assumption is that the Chinese will actually use their trade and negotiating leverage to force a discount. The Chinese may have other strategic objectives, and they decide they're going to pay a premium for oil in order to support the Iranian regime and undermine American security. I think that's perhaps one weakness.

I think a second weakness of the argument is that it presupposes that our short-term sanctions policy is to stop this Iranian nuclear weapon. If you believe that our sanctions policy should be designed as a containment strategy, then a medium- to long-term sanctions strategy is sufficient. And I think that the administration has done a good job of putting in place a medium- to long-term sanctions regime. And I think Dr. Maloney articulated what that looks like.

Unfortunately, I think we should stop the nuclear bomb. I think President Obama has made it very clear that an Iranian nuclear weapon is unacceptable.

And I fear that we are in a bit of a sanctions sleepwalk, where we have done a very good job—or the administration has done a very good job of designing a regime that has decreased foreign investment in the Iranian energy sector, that has shrunk gasoline imports by about 90 percent, that has led to many companies ter-

minating their business ties, including providing technology to Iran's massive natural gas industry. And so the medium- to long-term sanctions strategy is working. It's gone after investment, it's shrinking oil production. And I think, in that respect, it's giving energy markets time to adjust so that there isn't a reactionary or alarmist response to the sanctions.

Part of the weakness of the argument is, if you're pursuing a short-term strategy, it is not 100 percent clear how energy markets will respond. And I think it is up to the administration and Congress, when speaking about this, to speak about oil sanctions responsibly and to make it very clear to energy markets that the goal is not to go after physical supply but, in fact, to keep every barrel of Iranian oil on the market but at a discounted price.

So it's really a question of short-term to long-term strategy. I fear, again, that we're in a bit of a sanctions sleepwalk, where we all recite positive talking points about how sanctions are working, but I think we're all beginning to acknowledge that sanctions have not worked.

Mr. TIERNEY. So it appears that, once again, under your proposal, China would hold the key again, depending on whether or not we could convince China to not pay a premium, whether or not they would find out that their goal was to, sort of, give it to us by just paying the premium and watch the prices go up and watch the West countries sort of figure out how they are going to deal with that in the middle of an economic problem, or they are going to just have their own self-interest in mind on economics.It is both self-interest, I guess——

Mr. DUBOWITZ. Right.

Mr. TIERNEY [continuing]. But pick one over the other. Is that fair to say?

Mr. DUBOWITZ. Well, I think it's fair to say. I mean, it may be that the Chinese actually don't want to see a nuclear-armed Iran. It may not be good for Chinese energy and national security. So it may be an opportunity for them to actually support both their economic self-interest and their political self-interest. But I think that is an open question.

Mr. TIERNEY. So it would be useful for us to get some Chinese experts in here to explore that further about what their reaction may be?

Mr. DUBOWITZ. I think, certainly, from a political economy perspective, in terms of their strategic objectives, I think it is very useful to have Chinese experts who can elucidate that.

Mr. TIERNEY. Thank you very much.

Mr. CHAFFETZ. Thank you.

We will now recognize the gentleman from Illinois, Mr. Quigley, for 5 minutes.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Sorry, I was in another committee meeting. I understand you touched on the issue of the Central Bank of Iran. I would just reference the letter from the 92 Senators to President Obama urging him to sanction the Central Bank and Mr. Geithner's response, which was, "All options to increase the financial pressure on Iran are on the table, including the possibility of imposing additional sanctions against the CBI."

Is there a timetable for doing this? And have we discussed this possibility with our allies?

Mr. DUBOWITZ. I believe those discussions are taking place right now. There are amendments that have been offered in both the House and the Senate to include a CBI designation in the current legislation. I think there is certainly a lot of discussion about how to do this.

I absolutely support a blanket designation of the CBI. I think it needs to be done in a way, however, that's targeted, incremental, and implemented rapidly.

In other words, if you today call for a blanket designation with the view that you're going to strictly enforce that designation, thereby essentially cutting off the possibility that people buying Iranian oil can use the CBI to settle those oil transactions, you may be sending a message to the markets that there is no way to financially settle an oil trade. On the other hand, if today the administration were to target the CBI to make this very case, "If you are buying Iranian oil, you are buying it from the Revolutionary Guard Corps, and if you're settling that transaction with the CBI, then we will sanction that transaction," that's the selective, targeted way of doing it.

And, again, it builds into this theory that there will be some oil buyers who will respond to that pressure and will look for alternative suppliers. There will be other oil buyers who will believe the administration will never sanction them and will continue settling those transactions through the CBI.

I think if we did that, number one, we could move today targeting the CBI, instead of waiting for a blanket designation; number two, we could lay the predicate for a much tougher CBI designation down the road; and, number three, I do think we need to give time to markets for markets to adjust to a CBI designation. Again, there are major buyers of Iranian oil using the CBI because the U.S. Treasury Department has done such an effective job of shutting down other financial avenues to settle an oil transaction.

Again, incremental steps, implemented rapidly, with a view to minimize the opportunity or the risk of a reactionary or alarmist response from oil markets.

Mr. QUIGLEY. The reaction from the other doctors?

Dr. MALONEY. I think it's simply just a fallacy that you can begin to reduce the opportunities for companies to purchase crude coming out of Iran and it will have no impact on the price of oil anywhere else. You know, if it increases the leverage of Chinese companies to drive other competitors from the market for purchasing Iranian crude, then it will thereby decrease the leverage of those other companies which are no longer then available as purchasers of Iranian crude as they deal with other countries and companies.

Right now, in fact, what we see is that the Iranians are, in fact, gaining advantage. When the Greeks have had difficulty making purchases elsewhere, they have turned to the Iranians. This sort of idea that somehow the Iranians can become a kind of niche market for only bad countries and bad companies to purchase crude oil from simply doesn't reflect the realities of the international marketplace.

And the idea that somehow we can inspect every barrel of crude that comes into this country to ensure that not a drop of oil was produced in Iran is, you know, simply inconsistent with the way the international oil market works.

Mr. QUIGLEY. Doctor.

Dr. POLLACK. Thank you, Congressman.

I would like to take this to a slightly higher level and say, you know, what I think we have all been saying is that it is a mistake to believe that sanctions alone are going to achieve our goals with Iran. I completely agree with my colleague Dr. Maloney's statement. The sanctions have had an unprecedented impact, and yet they are not achieving our goal, and we should not assume that they will.

By the same token, it would be a mistake to scale back the sanctions. That would send absolutely the wrong message to Iran, to the Iranian people, to the rest of the international community, to other would-be proliferators.

I think the real question is, first, can we in some way find ways to help do a little bit more with sanctions, because we do want to keep the pressure on, but, in particular, how do we find other ways to bring pressure against Iran on issues that this regime actually believes are important to it. The sanctions have not been able to accomplish that. And I would urge this subcommittee to hold additional hearings on other ways that the United States might bring pressure on Iran on other areas beyond its economy—which, again, are not unimportant; they are important, but they clearly are not going to get us to where we want to be.

Mr. QUIGLEY. Mr. Dubowitz.

Mr. DUBOWITZ. If I could follow on what Dr. Pollack said, I think that's absolutely right. I mean, we talk about sanctions, we talk about economic sanctions. I think human-rights sanctions have actually played a very important and consequential role, particularly in focusing world attention on the vast system of oppression that the Iranian regime has set up and the egregious human-rights abuses that it has perpetrated.

I think human-rights sanctions are also important because, under U.S. law today, we should be sanctioning companies that are providing tools of oppression to the Iranian regime. That authority exists under CISADA. We have not sanctioned any companies for doing so. They are providing technology and parts and components for the Iranian nuclear industry.

So it's counterproliferation sanctions, it's human-rights sanctions. We have the ability to be much more rigorous in enforcing existing law. And I think let's start with cutting the tools of oppression that are being sold to the regime, the United States and international companies that are selling multimillion-dollar hardware units and software that help the regime target Iranian dissidents, roll them up, torture them, and kill them. And that would be a good place to start in expanding our view of sanctions beyond energy and economic sanctions.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Mr. CHAFFETZ. Thank you.

With the concurrence of the rest of the Members, I think what we will do now is we will move to the second panel, unless Members had any additional questions.

We want to thank you for your expertise, for your participation here today. Again, if you have any additional comments you care to share with the committee, we would certainly welcome those. Thank you again.

We will stand in recess for just a few minutes while we change to the second panel.

[Recess.]

Mr. CHAFFETZ. The committee will now come back into session and come to order.

We are going to move to our second panel. And we are going to recognize Mr. Adam Szubin, who is the Director of the Office of Foreign Assets Control at the Department of Treasury; Mr. Henry Wooster, who is the Deputy Assistant Secretary with the Department of State; and Mr. Colin Kahl is the Deputy Assistant Secretary with the Department of Defense.

Pursuant to committee rules, all witnesses will be sworn in before they testify. If the witnesses will please rise and raise their right hands.

[Witnesses sworn.]

Mr. CHAFFETZ. Thank you. You may be seated.

Let the record reflect that all the witnesses answered in the affirmative.

In order to allow time for discussion, we would appreciate it if you would limit your verbal testimony to 5 minutes. We will certainly submit your full testimony into the record.

We will now start with recognizing Mr. Szubin for 5 minutes.

STATEMENTS OF ADAM J. SZUBIN, DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL, U.S. DEPARTMENT OF THE TREASURY; HENRY T. WOOSTER, ACTING DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE; AND COLIN H. KAHL, PH.D., DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR THE MIDDLE EAST, U.S. DEPARTMENT OF DEFENSE

STATEMENT OF ADAM J. SZUBIN

Mr. SZUBIN. Thank you very much, Chairman.

Chairman Chaffetz, Ranking Member Tierney, distinguished members of the subcommittee, thank you very much for the opportunity to appear before you today to discuss the Treasury Department's contributions to the Obama administration's strategy to address Iran and the threat posed by Iran's nuclear program and its extensive support for terrorism.

I am pleased to be here with Deputy Assistant Secretary Wooster and Deputy Assistant Secretary Kahl because the progress that we have made has been due to a strong interagency collaboration to confront the threats that we face from Iran. And those threats are very real.

The administration is pressing Iran hard across multiple fronts. Since just the fall of last year, the Treasury Department has imposed sanctions against over 230 individuals and companies tied to

Iranian human rights violations, WMD proliferation, and terrorist facilitation; and we have extended the impact of these actions with concerted outreach to our allies in the jurisdictions where Iran has operated historically.

We have focused particular pressure on key actors and commercial sectors that advance Iran's illicit activities internationally and therefore represent real vulnerabilities for Iran: the IRGC, Islamic Revolutionary Guard Corps, and its expanding network of companies within and outside of Iran; those Iranian banks that have served as agents for Iran's proliferation and terrorist activities; and Iran's international transportation arms, including its national maritime carrier, IRISL, and its two largest airlines, which have facilitated the movement of weapons, funds, and personnel for the IRGC and its external operations arm, the IRGC Qods Force.

Our efforts were powerfully advanced by Congress with the enactment last year of the Comprehensive Iran Sanctions Accountability and Divestment Act [CISADA]. CISADA presented a stark choice to foreign financial institutions that were still willing to do business with designated Iranian banks or the IRGC. You can do business with these rogue actors or you can do business in the United States. You cannot do both.

We have taken this message to over 45 countries now and pressed this choice with over 80 foreign financial institutions, making the successful point that these actors should have no access to the formal financial system. The message has been heard. Whereas a few years ago the United States was the only jurisdiction in the world to restrict dealings with Iranian banks, today Iran's largest banks are struggling to maintain accounts and access in any bank in any country.

The European Union, Japan, South Korea, Canada, Australia, Norway, and Switzerland have all imposed sanctions with real bite against Iranian financial institutions above and beyond the four successive U.N. Security Council resolutions; and banks across the rest of the world have severed their ties with Iranian blacklisted entities to protect themselves and their reputations.

In the meantime, we at OFAC have intensified our enforcement efforts at home to ensure that our sanctions are being fully implemented by U.S. persons and by companies doing business here. In August, OFAC concluded the largest sanctions settlement in our history with a U.S. financial institution in which J.P. Morgan Chase agreed to pay over $88 million to settle alleged violations of Iran and other OFAC sanctions programs. And, increasingly, OFAC is acting in concert with other U.S. Government and law enforcement agencies to penalize and deter sanctions violators.

In February, we joined in a public announcement with the Justice Department, the Commerce Department, the FBI, and other agencies in the criminal indictment and designation of Milad Jafari and his network for their illegal supply of specialized metals from the United States to entities involved in Iran's ballistic missile program.

In another coordinated action, we took public action with the Department of Commerce and the Justice Department against Balli Aviation and the Balli Group for its illegal export of a Boeing 747

aircraft from the United States to Iran and obtained a $15 million settlement with that company.

Finally, this past month we announced a joint civil and criminal resolution with Commerce's Bureau of Industry and Security and the Justice Department against Sunrise Technologies, which had exported computer-related goods from the United States to Iran via Dubai.

These coordinated multi-agency enforcement actions demonstrate the concerted impact that we can have when we harness our authorities across the government.

Overall, our strategy is yielding significant results. Iran has never before been as isolated, and its leaders are worried. I would be glad to expand further on these impacts if the committee so desires.

But, of course, there is still much to be done. We have yet to see the needed action by Iran to comply with its international obligations. In the weeks ahead then, working with our colleagues across the administration and with Congress, we will seek to further deepen Iran's isolation and increase the pressure on its leadership to alter their course.

We thank you for your continued support in seeking to apply the most effective pressure possible. Thank you.

[The prepared statement of Mr. Szubin follows:]

Embargoed until delivery

The Honorable Adam J. Szubin
U.S. Department of the Treasury

Hearing entitled "Progress of the Obama Administration's Policy Toward Iran"

House Oversight Subcommittee on National Security, Homeland Defense and Foreign Operations
November 15, 2011

INTRODUCTION

Chairman Chaffetz, Ranking Member Tierney, and distinguished members of the Committee: Thank you for the opportunity to appear before you today to discuss the Department of the Treasury's contribution to the Obama Administration's integrated strategy to address the threat posed by Iran's nuclear program and its extensive support for terrorism. I am pleased to be here with Deputy Assistant Secretary Wooster and Deputy Assistant Secretary Kahl to discuss the approach the Administration has taken, as the progress we have achieved has been due to a robust, interagency collaboration to confront the threat we face from Iran.

I will focus my remarks today on our sanctions strategy, paying particular attention to the Treasury Department's vigorous implementation of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), the impact CISADA and other sanctions are having on Iran, and our plans to increase the pressure on Iran going forward.

Iran Sanctions Strategy

The Treasury Department's sanctions efforts are embedded in the dual-track strategy that the United States and our allies are pursuing to address Iran's continued failure to meet its international obligations regarding its nuclear program.

Notwithstanding the sincere offer of engagement extended to the Iranian government by the United States since the outset of this Administration, Iran has refused to respond meaningfully. In order to compel Iran to change its approach and to make clear to Iran the consequences of its existing approach, the United States is implementing a broad-based pressure strategy. Among the most important elements of this strategy are targeted financial measures designed both to disrupt Iran's illicit activity and to protect the international financial sector from Iran's abuse. Our actions have focused on key government entities involved in Iran's illicit conduct, including nearly two dozen Iranian state-owned banks; the Islamic Revolutionary Guard Corps (IRGC) and its external arm, the IRGC-Qods Force; and, Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL), and its affiliates.

This strategy has yielded significant results. We have imposed costs directly on the entities we sanctioned, and by focusing our efforts on exposing Iranian entities' illicit and deceptive activities, we have built support among foreign governments to take similar actions. The global

private sector also has amplified our actions – often taking voluntary steps beyond their legal requirements – because our actions have highlighted the pervasive nature of Iran's illicit and deceptive conduct and the reputational risks associated with any Iran-related business.

Our ability to isolate and disrupt the IRGC and designated Iranian financial institutions was strengthened considerably last year when President Obama signed CISADA into law. CISADA has helped us make the case to foreign governments and foreign financial institutions that the IRGC and Iran's designated banks should not be allowed access to the international financial system. As I will describe in more detail, our implementation of CISADA has significantly impaired designated Iranian banks' access to the international financial system, impeding their ability to facilitate Iran's illicit activities, and creating unprecedented financial and commercial isolation for Iran.

Although we are making progress, there is, of course, still much to be done. Iran is feeling the impact of the pressure, but we have yet to achieve the objective of our dual-track strategy: concrete action by Iran to comply with its international obligations and to address the international community's concerns regarding its nuclear program. Last week's release of the IAEA report only makes more clear to the world the severity of the current situation.

Recent Actions and Progress

Treasury has recently taken a number of significant actions that have increased markedly the pressure on Iran.

Tidewater Middle East Co. and Iran Air

The IRGC continues to be a primary focus of U.S. and international sanctions against Iran because of the central role it plays in all forms of Iran's illicit conduct, including Iran's nuclear and ballistic missiles programs, its support for terrorism, and its involvement in serious human rights abuses. As Iran's isolation has increased, the IRGC has expanded its reach into critical sectors of Iran's economy, displacing ordinary Iranians, generating revenue for the IRGC, and conducting business in support of Iran's illicit activities. We previously imposed sanctions on several IRGC-related entities, and in June we continued the effort to expose the IRGC's expansive economic reach – this time, into Iran's maritime and transportation sectors.

Using our nonproliferation authorities, in June, we designated Tidewater Middle East Co. (Tidewater), an IRGC-owned port operating company that manages the main container terminal at Bandar Abbas and has operations at six other Iranian ports. The Bandar Abbas port handles approximately 90 percent of Iran's containerized shipping traffic and has been used by Iran to export arms and related materiel in violation of several United Nations Security Council Resolutions (UNSCRs). That same day, we also imposed sanctions against Iran Air, the Iranian national airline carrier, because it has been used by the IRGC and Iran's Ministry of Defense for Armed Forces Logistics (MODAFL) to transport military-related equipment.

The international private sector responded swiftly to these actions, taking steps to ensure that they have no part in dealing with these proliferators. For example, several of the world's largest

shipping container firms, Maersk, Hapag Lloyd, and NYK Lines, have stopped calling at Bandar Abbas' Shahid Rejaie terminal.

IRISL

Since IRSISL was designated by the U.S. in 2008, the U.K. in 2009, and the EU in 2010 for supporting Iran's WMD proliferation activities, it has sought to evade sanctions by changing ships' names and nominal owners – often multiple times – and altering shipping documents to disguise its activities. Treasury, in turn, continues to expose IRISL's use of these and other deceptive practices and has imposed sanctions on more than 150 IRISL-related vessels, companies, entities, and persons over the last three years.

In June, we added to this list by designating 10 IRISL front companies, as well as three individuals who each play a key role in aiding IRISL's sanctions evasion activities worldwide. Most recently, on September 27, Treasury identified six new IRISL front companies in Panama that took ownership of IRISL vessels after Treasury exposed and sanctioned their previous owners on the Isle of Man last November.

Our actions, coupled with similar sanctions imposed by many of our partners around the world, have substantially hindered IRISL's operations, causing it real financial distress. Because of sanctions imposed by the EU, IRISL today is largely shut out of European ports. It is also unable to obtain maritime insurance from any of the world's recognized insurers, including the Lloyd's market. Instead, IRISL is now insured, if at all, by a sanctioned Iranian insurance company with no history of writing maritime insurance and no track record of paying maritime claims. Along with this change in insurance, which in some cases has run contrary to the terms of IRISL's vessel mortgages, IRISL has had difficulty making payments on its mortgages. This has led to about a half-dozen IRISL ships being arrested in ports around the world by creditors seeking payment.

Iranian Human Rights Abuses

In response to the Iranian regime's serious human rights abuses, CISADA requires that the President impose sanctions upon Iranian officials, or persons acting on behalf of the Iranian Government, who are responsible for or complicit in the commission of serious human rights abuses against Iranians. In September 2010, President Obama signed E.O. 13553, which authorizes Treasury, in consultation with or at the recommendation of the State Department, to expose serious human rights abuses by the Iranian regime, both inside and outside of Iran. As the regime's abuse of its citizens' human rights has continued, together we have imposed sanctions under E.O. 13553 against 11 senior Iranian officials and three Iranian entities – the IRGC, the Basij Resistance Force, and Iran's Law Enforcement Forces (LEF) – including the IRGC's commander, the LEF chief, and Iran's Intelligence Minister.

Treasury actions with State have also exposed Iran's support of the Syrian government's ongoing violence and repression of the Syrian people. Under E.O. 13572, which targets those responsible for or complicit in human rights abuses in Syria, Treasury designated the LEF for supporting the Syrian General Intelligence Directorate in its brutal suppression of the Syrian people. Treasury also designated LEF's Chief and Deputy Chief, and two senior IRGC-Qods Force officers pursuant to E.O. 13572.

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Iranian Support for Terrorism

We have not lost sight – and must not lose sight – of the fact that Iran is the world's most active state sponsor of terrorism. Iran has used its state apparatus – including especially the IRGC-Qods Force –to support a wide range of terrorist organizations, including Hizballah, Hamas, Palestinian Islamic Jihad (PIJ), the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), and the Taliban. In addition to providing financial support to these terrorist groups, Iran has allowed al-Qai'da to use its territory for the movement of money, facilitators, and al-Qa'ida operatives. Al-Qa'ida's core financial pipeline – which runs from Kuwait and Qatar, through Iran, to Pakistan – depends upon an agreement between al-Qa'ida and the Iranian government to allow this network to operate within its borders. In July, Treasury designated six members of this network headed by an Iran-based individual to further degrade al-Qa'ida and expose Iran's continued support to terrorist groups worldwide.

Iranian Influence in Iraq

Iran continues to fund and equip elements of the insurgency in Iraq, further destabilizing that country and causing the deaths of Americans, Iraqis and others. As part of our broader efforts to disrupt the support lines of the insurgents, we have used our authorities to target Iranian-linked support networks. In September 2008, we designated senior IRGC-Qods Force officer Abdul Reza Shahlai under E.O. 13438, for his involvement in planning Jaysh al-Mahdi (JAM) Special Group attacks against Coalition Forces in Iraq and providing material and logistical support to Shia extremist groups. Shahlai was designated again under E.O. 13224 in October 2011 following the revelation of his involvement in the planned assassination of Ambassador al-Jubeir. In July 2009, we designated IRGC-Qods Force Commander Soleimani's advisor Abu Mahdi al-Muhandis for his involvement with IRGC-Qods Force sponsored JAM attacks against coalition forces in Iraq, as well as designating the IRGC-Qods Force funded Iraq-based Shia group Kata'ib Hizballah which has conducted multiple attacks against Coalition forces in Iraq. Most recently, in October of this year, we designated the Iranian commercial airline Mahan Air, under E.O. 13224, for providing financial, material and technological support to the IRGC-Qods Force including assisting in the covert travel of suspected officers into and out of Iraq by bypassing normal security procedures.

As Iran continues to undermine stability in Iraq, we will continue to apply our authorities in support of the United States Government's broad-based pressure strategy being implemented against Iranian sponsored violence.

Financial Sanctions and Implementation of CISADA

A central focus of our efforts remains directing sanctions against Iranian banks that either directly facilitate Iran's WMD and missile proliferation activity, or that provide material support to banks that have been designated for engaging in that activity. These sanctions, coupled with the power of CISADA, have massively eroded designated Iranian banks' access to financial services, protected the international financial system from risks posed by designated Iranian banks, and impeded Iran's ability to acquire material for its nuclear program. Moreover, because many of Iran's largest state-owned banks have been sanctioned for engaging in or supporting

other banks engaged in illicit activity, our sanctions – along with complementary actions by many of our allies – have imposed substantial economic pressure on Iran.

In May, we continued these efforts by designating Iran's Bank of Industry and Mine (BIM) under E.O. 13382 for providing financial services to other designated Iranian banks. After the EU acted to implement UNSCR 1929 by prohibiting 18 Iranian banks from conducting transactions in Europe, BIM used one of its accounts as a conduit for transactions into Europe by designated banks, including Bank Mellat and Bank Saderat. That is, BIM, like Post Bank before it, engaged in a scheme to front for designated banks in an effort to evade U.S. sanctions. BIM is the 22nd Iranian state-owned financial institution to be designated by Treasury.

CISADA's powerful new financial authorities have amplified the impact of our designations of Iranian banks. Under CISADA, the Secretary of the Treasury is empowered to cut off from the U.S. financial system any foreign bank that knowingly facilitates the activity of individuals and entities sanctioned by the UN Security Council in its recent Iran resolutions, as well as any foreign financial institution that knowingly facilitates a significant transaction, or provides significant financial services, for Iranian banks designated by the U.S. or for the IRGC and any of its designated agents or affiliates.

Since President Obama signed CISADA into law, my colleagues in the Treasury Department and I have aggressively implemented it in close coordination with the State Department. We issued the Iranian Financial Sanctions Regulations just over a month after the law was passed, describing in detail the activity that could lead to action by the Treasury Department against a foreign financial institution. And we have embarked on a worldwide effort to discuss the serious consequences that could befall a financial institution that engages in CISADA-sanctionable activity. This has involved outreach to foreign financial institutions, regulators, and government agencies in nearly 50 countries across five continents.

As we explain in these engagements, CISADA offers a clear choice: a foreign financial institution can have direct access to the largest and most important financial sector in the world – the United States – or it can do business with the IRGC or Iranian banks sanctioned for facilitating Iran's illicit activity, but it cannot do both. For the overwhelming majority of foreign banks, the choice has been a simple one, and those that had potentially sanctionable relationships discontinued that business. The result is exactly what we believe Congress intended: CISADA has helped us deepen and broaden Iran's isolation from the international financial system.

We continue to be vigilant to uncover and investigate activity that may lead to action under CISADA. And we remain ready and willing to utilize the tools provided by CISADA whenever and wherever necessary.

The Impact of Sanctions on Iran

Last December, in testimony to the House of Representatives Committee on Foreign Affairs, former Under Secretary Stuart Levey described the impact of sanctions on Iran this way: "Iran has become increasingly isolated from the international financial system, with limited access to financial services.... Iran has been relegated to the margins of the international financial system,

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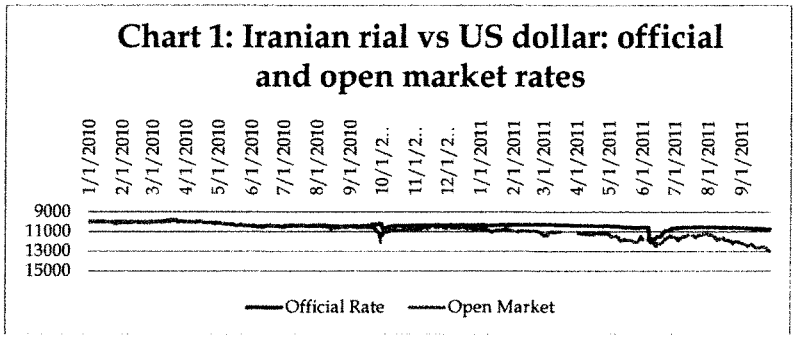
and is finding it increasingly difficult to access the large-scale, sophisticated financial services necessary to run a modern economy efficiently." I can report that Iran's financial isolation, and the economic impact of that isolation, have both continued to grow.

Due to a combination of factors – including UNSCR 1929, financial sanctions imposed by the U.S., EU, and other like-minded countries, and foreign banks' interest in avoiding CISADA actions or the reputational risk of doing business with Iran – the number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously over the last year. Iran's shrinking access to financial services and trade finance has made it extremely difficult for Iran to attract foreign investment, pay for imports, or receive payment for exports. This has led to a number of significant macroeconomic effects in Iran, exacerbating persistent economic weakness due to the Iranian government's mismanagement of its economy.

Sanctions have increased the cost and difficulty of accessing adequate foreign exchange, including the dollar, which has contributed to major instabilities in Iran's currency. (See chart 1) Last fall, following the adoption of UNSCR 1929 and various member states' actions to implement the Resolution, the spread between the official and the private-market exchange rates for the Iranian rial widened dramatically. In September 2010, the rial depreciated by up to 20 percent in one week alone. It recovered, but earlier this year, the spread between the official and the market exchange rate again began to widen. Iran's Central Bank intervened in early June, devaluing the rial by 11 percent in an effort to close the gap, but it has only grown wider since. The Central Bank of Iran has so far been unable to contain volatility in the rial market exchange rate. There are a number of theories to explain this phenomenon, but it is surely driven by Iranians seeking to convert their rial into foreign currency, underscoring the extent to which Iranians lack confidence in their economy.



Dwindling direct foreign investment in Iran also reflects, in part, the impact of our targeted sanctions. At a time when Iran could badly use an infusion of international capital, foreign investment in Iran remains low in comparison to other developing economies. (See chart 2) The International Monetary Fund has attributed this trend to international sanctions and Iran's difficult business environment. Iran continues to struggle to attract investment in key sectors, particularly oil and gas. Many international and national oil companies have effectively

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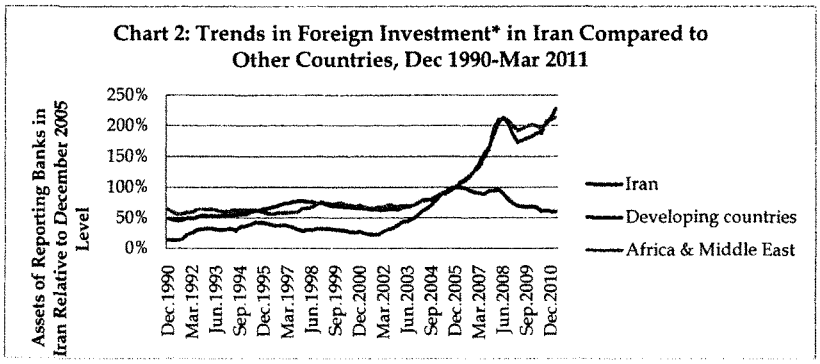
withdrawn from Iran, depriving the country of large-scale foreign investments and technology. As a result, the International Energy Agency projects that Iranian oil production will decline by about 800,000 barrels per day (bpd) by 2016, a roughly 20 percent decline in production capacity. At current oil prices, such a decline will cost Iran on average about $14 billion (about 3 percent of Iran's GDP) in annual oil revenues through 2016.



Sanctions have also led to the IRGC taking over key aspects of Iran's economy, exacerbating the cronyism and corruption that pervades the Iranian regime. We have seen this in a number of areas. Khatam al-Anbiya, the U.S.-, EU-, and UNSC-designated engineering arm of the IRGC, has been recruited to develop key energy resources. The IRGC, through its sanctioned affiliates Bonyad Tavon Sepah and Mehr Bank, took over Tidewater, a port operator that until a few years ago had been privately owned. And President Ahmadinejad recently appointed Rostam Ghasemi, a U.S. and EU-designated IRGC commander and former leader of Khatam al-Anbiya, as Minister of Oil. This appointment was applauded by the IRGC, which characterized Ghasemi's new role as a "meaningful and critical response to the attacks against the IRGC from the west's media empire." However, even members of Iran's government have publicly questioned the wisdom of this decision. One member of Iran's parliament observed that "the integration of the IRGC, as a military force, in political and economic power is not in the interests of the system.... In neighboring countries, military officials are distancing themselves from politics and power, while it's the opposite in Iran."[1] Furthermore, the inclusion of the IRGC throughout the Iranian economy has opened up Iran to greater pressure through sanctions.

Altogether, there is little doubt that our sanctions strategy has markedly reduced Iran's access to the international financial system and has substantially increased the pressure on the Iranian government.

The Continuing Threat and the Way Forward

[1] http://www.businessweek.com/ap/financialnews/D9OSLUI80.htm

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The Governor of the Central Bank of Iran, Mahmoud Bahmani, commenting on the financial sanctions, said recently that Iran should "fight back, and that's for sure," asking, "But how?"[2] It is clear that Iran has chosen to "fight back" against sanctions by using increasingly deceptive tactics in an effort to evade the scrutiny of governments, regulators, and banks around the world. As Iran has lost access to global banking and financial services, and suffered disruptions in its ability to conduct trade worldwide, Iran is trying to preserve the limited access its designated banks have to the international financial system while simultaneously seeking to secretly establish new footholds. To do so, Iran is targeting vulnerable jurisdictions and financial institutions that may willingly or unwittingly allow designated Iranian banks to operate.

For example, some branches and subsidiaries of designated Iranian banks continue to operate in jurisdictions outside of Iran. Although many foreign banks would prefer not to do business with these branches and subsidiaries, Iranian bank branches exploit legal systems that allow them to continue to operate, jeopardizing the integrity of their host countries' financial sectors. We have been working with these host countries to shut down the operations of overseas affiliates of designated Iranian banks. We have achieved some success, but there is more work to do.

We also know that Iran has attempted to purchase banks in other countries, relying upon third-party associates or firms to facilitate these purchases in order to mask Iranian involvement and ownership. Preventing these attempts to circumvent multilateral sanctions remains a key focus of our strategy. Where we have information about these potential purchases, we work to alert our foreign partners and urge them to prevent Iran from gaining access to their financial sectors in this manner.

We are also continuing our intense efforts to implement CISADA. Last month, we issued a final rule to implement Section 104(e) of CISADA, establishing a reporting requirement for U.S. banks that will complement our efforts to identify CISADA-sanctionable activity by foreign banks. We have already begun to utilize this regulation by issuing information requests to a number of U.S. banks regarding several foreign banks that we have reason to believe may be involved in activity sanctionable under CISADA. If we become aware of activity that can trigger CISADA sanctions – through this or other investigative efforts under way – we will seek prompt resolution, either by insisting on confirmation from the foreign bank that it has ended its relationship with designated Iranian banks or by imposing CISADA sanctions.

Conclusion

As Iran continues to choose the path of defiance, Treasury, working with our colleagues across the Administration and in Congress, will continue to pursue new and innovative ways to pressure Iran and create crucial leverage for our diplomacy

[2] http://af.reuters.com/article/idAFTRE67716B20100808

Mr. CHAFFETZ. Thank you.

Mr. Wooster, you are recognized for 5 minutes.

STATEMENT OF HENRY T. WOOSTER

Mr. WOOSTER. Chairman Chaffetz, Ranking Member Tierney, distinguished members of the subcommittee, thank you for inviting me here to discuss the administration's policy toward Iran and the progress we have made since January 2009.

The key objectives of this administration's Iran policy remain to prevent it from acquiring nuclear weapons, our foremost priority; from supporting terrorism; from committing human rights abuses; and from destabilizing the region. We have enacted the toughest sanctions Iran has faced. Our policy is making Iran's current course unsustainable, reducing its options and deepening its isolation. Indeed, Iran is an outcast among nations.

The U.S. Comprehensive Iran Sanctions Accountability and Divestment Act [CISADA] as we all know it, has been vital to ratcheting up pressure on Iran. With CISADA as a tool, we have shut down important sources of funding to Iran's nuclear program and related illicit activities. Investment in technical assistance in Iran's upstream oil and gas sector have dropped dramatically. We have sanctioned 10 foreign companies involved in Iran's energy sector and dissuaded energy firms like Shell, ENI, Total, and INPEX from continuing or undertaking sanctionable activities in Iran. Major energy traders from Russia, India, Switzerland, Kuwait, Turkey, France, and the Netherlands have stopped sales of refined petroleum products to Iran.

As my OFAC colleague has described, we have used executive orders to designate entities that support or facilitate terrorist or proliferation activity, including Mahan Air, Iran Air, and Tidewater Middle East Co.

Last month, we designated five individuals for their involvement in Iran's plot to assassinate the Saudi Ambassador in the United States. Others, including the European Union and Canada, have already taken or will take similar actions against these individuals.

Our policies have been effective in sharpening the choices before the regime. As Iranian President Ahmadinejad recently admitted in a speech to the Majlis, the Iranian parliament, "Which government can work under so much pressure? This is the heaviest economic onslaught on a nation in history."

We are committed to the P5+1 framework to engage with Iran, provided it is prepared to discuss seriously its nuclear program. Until then, we will work with other nations on new sanctions measures.

The latest IAEA Director General's report on Iran's nuclear program deepens our concerns, and we are consulting with allies on how to respond at this week's board of Governors meeting in Vienna.

The Iranian regime's unacceptable behavior extends to its human rights abuses. In response to the regime's systematic campaign of violence and intimidation against protesters in 2009, we designated eleven individuals and three entities for egregious human rights violations, and we continue to compile evidence to designate the worst abusers. For the past 8 years, we have co-sponsored a U.N.

resolution calling Iran to account for its human rights abuses. Last year, this resolution passed with the largest margin to date. In March, we helped create the position of the Special Rapporteur on Iran, whose recent reporting has shone a spotlight on the regime's repression of its own citizens.

We also equip Iranian civil society with capacity building programs, training, media access, counter-censorship tools, and exchanges to help Iranians defend their fundamental rights and freedoms.

Turning to the broader region, we acknowledge the concerns that our military withdrawal from Iraq will allow Iran to expand its influence. However, we also know most Iraqis reject Iran's interference. Iraqi leaders have rebuffed Iranian political pressure, and Prime Minister Maliki has said he will not tolerate the violent activities of Iran-backed militant groups.

Iraq is diversifying its foreign relations and developing relationships with EU countries and regional players. In October, Iraqi Foreign Minister Zebari stressed in a press conference with his Iranian counterpart, "No other party can fill the vacuum in Iraq except the people of Iraq and the Government of Iraq."

We are working with Iraqi Security Forces to strengthen their capabilities beyond 2011, an aspect that Colin can speak to more directly. We are helping Iraq establish credible public institutions to protect its sovereignty and independence.

In closing, this administration has expanded the varieties of tools and partners to deter Iran from developing nuclear weapons, continuing its human rights abuses, and destabilizing the regime—excuse me, the region. Sanctions are having an effect. With the aim of compelling the Iranian regime to change its strategic calculus, we will work with Congress and our allies to increase pressure. It is Iran's responsibility and its self-interest to join the international community of nations. Until then, it only faces growing isolation and condemnation.

Thank you once again. I look forward to your questions.

[The prepared statement of Mr. Wooster follows:]

WRITTEN STATEMENT
HENRY T. WOOSTER
ACTING DEPUTY ASSISTANT SECRETARY OF STATE FOR
NEAR EASTERN AFFAIRS

SUBCOMMITTEE ON NATIONAL SECURITY, HOMELAND DEFENSE,
AND FOREIGN OPERATIONS,
HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE
"Iran Policy Since January 2009"
November 15, 2011

Chairman Chaffetz, Ranking Member Tierney, Distinguished Members of the Subcommittee: thank you for inviting me to appear before you today to discuss the Administration's policy toward Iran and the progress we have made since President Obama took office in January 2009. I am pleased to be here with Deputy Assistant Secretary of Defense Colin Kahl and OFAC Director Adam Szubin, two key players in the interagency team combating threats posed by Iran. We all share this Congress' determination to apply unprecedented pressure on the regime to change its behavior. Today, I will discuss this Administration's efforts to hold Iran accountable for its nuclear program, its continued human rights abuses, and its destabilizing regional influence.

The United States continues to lead an international campaign to exact costs for the regime and to complicate its ability to pursue these policies. Since 2009, the United States, along with our P5+1 partners and the international community, has established the toughest multilateral sanctions Iran has ever faced. These sanctions, together with diplomatic pressure, have made the Iranian regime a pariah among governments. These sanctions have raised the cost, the time, and the energy required for Iran to pursue its current course, and they have provided a platform upon which other countries and the EU have implemented their own measures.

The 2010 passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) was key to our efforts to impose additional sanctions on a growing list of individuals and entities responsible for Iran's expanding scope of unauthorized activities. CISADA codified new tools and authorities that expanded the scope of our domestic sanctions, allowing us to more effectively target Iran's energy and financial sectors, and Iranian officials and entities

responsible for human rights abuses. With your support, we have worked with our interagency colleagues to ensure CISADA's effect is felt far and wide.

As a result of CISADA, the State Department sanctioned 10 foreign companies for doing business with Iran's energy sector, and CISADA's "special rule" has worked as intended, giving us the leverage to persuade multinational energy firms like Shell, Statoil, ENI, Total, and INPEX to withdraw from Iran's energy sector. Under threat of sanctions, these companies provided assurances that they would not undertake sanctionable activities in Iran's energy sector in the future.

Other successes under CISADA include the fact that major energy traders from key countries such as Russia's Lukoil; India's Reliance; Switzerland's Vitol, Glencore, and Trafigura; Kuwait's Independent Petroleum Group; Turkey's Tupras; France's Total; and Royal Dutch Shell have stopped sales of refined petroleum products to Iran. The EU has also enacted -- for the first time -- sanctions on energy investment in Iran. These actions have forced Iran to redirect its production facilities and sacrifice some lucrative petrochemical export production to instead manufacture refined petroleum for domestic consumption. Investment and technical assistance in Iran's upstream oil and gas sector have also dropped dramatically, thanks to CISADA and similar measures adopted by other countries. After the German company Linde stopped doing business with Iran, Iran lost its sole supplier of gas liquefaction technology, resulting in abandonment of its liquefied natural gas projects. South Korea's GS Engineering and Construction cancelled a $1.2 billion gas processing project in Iran; British Petroleum shut down production at a North Sea platform co-owned with the Iranian Oil Company; and Trans-Adriatic Pipeline (TAP) partners announced that the pipeline, once constructed, would not transport natural gas from Iran.

CISADA also provided the Administration with the authority to cut off foreign financial institutions that facilitate the activity of individuals and entities subjected to sanctions in connection with Iran's proliferation or support to terrorism. The result, as Treasury Under Secretary David Cohen testified last month, is that Iran is becoming financially isolated as the number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously. Iran has difficulty attracting foreign investment, paying for imports, or receiving payment for exports; foreign financial institutions are concluding that the Iranian market is not worth the reputational risk of association with the regime's deceptive practices. This isolation, in turn, has exacerbated persistent economic weaknesses due to the Iranian government's mismanagement

of its economy. This Administration is examining new measures that will subject any bank or financial institution considering targeted activity to further sanctions and international condemnation.

In addition to CISADA, we have used Executive Orders to designate entities that support or facilitate terrorist or proliferation activity. Last month, we designated five individuals under E.O. 13224 for their involvement in the Iranian plot to assassinate the Saudi Ambassador to the United States. The European Union and Canada followed our lead and designated the same five people. Also under 13224, we designated Mahan Air, a commercial Iranian airline, for providing support to the Islamic Revolutionary Guard Corps-Qods Force and Hizballah. Under E.O. 13382, we designated Tidewater Middle East Company, an IRGC-owned port operating company, and the nationally owned Iran Air for facilitating proliferation activities.

The international private sector has responded swiftly to these actions, taking steps to ensure they have no part in dealing with these entities. Several of the world's largest shipping container firms, such as Maersk, Hapag Lloyd, and NYK Lines, have stopped calling at Bandar Abbas' Shahid Rejaie terminal and have stopped, or intend to stop, all shipments of Iran-bound cargo. Reputable shipping insurers and reinsurers such as Lloyd's of London no longer insure Iranian shipping. Iran Air is also paying the price; most major fuel providers have terminated some or all of their Iran Air contracts, including British Petroleum, Royal Dutch Shell, Total, OMV, and Q8.

As these examples demonstrate, our domestic measures are dissuading foreign companies from doing business in Iran, and this is inflicting financial, logistical, and economic pain on key sectors that support its proliferation efforts. Companies from other sectors have even voluntarily opted out of the Iranian market, including automotive firms Daimler, Toyota, and Kia, as well as Germany's ThyssenKrupp. Caterpillar decided to prohibit its non-U.S. subsidiaries from exporting to Iran. The Swiss engineering firm ABB Ltd.; the Italian defense, aerospace, energy and transportation firm Finmeccanica; and the Irish industrial company Ingersoll-Rand Plc have all chosen to end their business with Iran. As the list of designated individuals and entities continues to grow, so does the cost, time, and energy required for Iran to pursue its current policies.

Iran has felt the effect of these actions, as Iranian President Ahmadinejad recently admitted in a speech to the parliament when he said, "[W]hich government can work under so much pressure? ....Every day, all our banking and

trade activities and our agreements are being monitored and blocked. This is the heaviest economic onslaught on a nation in history." The result of our strategy is an Iran that is finding dwindling options for doing business internationally. But pressure is not an end unto itself, and this Administration remains committed to engagement with Iran through the P5+1 framework, and with other nations to address the threats posed by Iran. Two months ago, the P5+1 countries met to publicly reiterate our longstanding concerns about Iran's installation of centrifuges, its increasing production of 20% enriched uranium, and the possible military dimension of Iran's program. We issued a strong and unified statement. It made clear that the P5+1 would be willing to meet with Iran, but only "if Iran is prepared to engage more seriously in concrete discussions aimed at resolving international concerns about its nuclear program." If, however, Iran simply seeks to buy time to make further progress in its nuclear program, it will face ever-stronger measures and ever-increasing isolation.

World pressure is demonstrating to Iran that its non-compliant behavior has consequences. Last year, the United States led a successful effort in the UN Security Council to adopt Resolution 1929, the Council's sixth resolution on Iran, and the fourth to impose legally binding Chapter VII sanctions on Iran. Resolution 1929 expanded the breadth and reach of existing UN sanctions and added new categories. Following the adoption of Resolution 1929, the European Union, Norway, Australia, Canada, South Korea, Switzerland, and Japan imposed additional measures to bolster those imposed by the resolution.

The latest IAEA Director General's report on Iran's nuclear program deepens our already grave concerns. Its findings confirm Iran undertook activities related to developing a nuclear weapons program prior to 2003 and indicates some of those activities remain ongoing. We are consulting with allies on a response at the November 17-18 IAEA Board of Governors meeting and identifying new unilateral measures that will stymie Iran's ability to pursue a nuclear weapons program.

At the same time, we use domestic and multilateral measures to call attention to and curb the regime's behavior on another issue, human rights. With a long track record of human rights abuses, Tehran hit a new low with its systematic campaign of violence and intimidation against the massive demonstrations by Iranians in 2009, when they were protesting against fraud and manipulation in their presidential election. The regime and its forces beat back thousands of protesters, arrested hundreds, and killed dozens more. They detained – and continue to detain – prominent opposition figures; tortured, raped, and killed prisoners; and

conducted more than 100 show trials. Despite the government's best efforts to censor its population, many courageous Iranians found ways to share with the rest of the world their horrific stories of being attacked, silenced, and tortured.

Using CISADA and E.O. 13553, we designated 11 individuals and three entities for committing serious human rights violations on or after June 12, 2009. We continue to compile evidence to designate other violators responsible for or complicit in human rights abuses. In July, we and the UK, with the support of Canada, imposed visa restrictions on Iranian government officials and other individuals who participated in human rights abuses. The officials subject to this visa ban include government ministers, military and law enforcement officers, and judiciary and prison officials. Our sanctions led to additional human rights designations from the EU, and we welcomed its announcement last month of more than two dozen additional sanctions, which include travel bans.

The United States has co-sponsored for the past eight years the Canadian-led UN resolution that calls Iran to account for its continuing human rights abuses. Last year, this resolution passed the UN General Assembly by the largest margin to date. We are working with our partners to highlight Iran's abuses at this year's General Assembly, building on the work of the new Special Rapporteur on Iran, Ahmed Shaheed. We took a leading role at the UN Human Rights Council in March to create his position, the first country-specific human rights rapporteur since the Council's creation. His first interim report last month catalogued a number of violations that heightened the international community's concerns that Iran is expanding its methods to oppress freedom of expression, assembly, and association; violates due process rights; persecutes religious and ethnic minorities; discriminates against women and lesbian, gay, bisexual, and transgender persons; and tortures prisoners and dissidents.

The Special Rapporteur's report is merely the latest evidence that the Iranian government is engaged in a systemic campaign to violate its citizens' universal rights. This repulsive and violent behavior reaffirms that Iran violates its citizens' universal rights and needs to be further isolated from the international community. The United States continues to take a firm stand against Iran's human rights abuses, as we recently did in collaboration with world leaders, religious groups, and NGOs to protest the possible execution of Pastor Nadarkhani for his religious beliefs. But more than that, we will continue to equip Iranian civil society with capacity-building programs, training, media access, and exchanges to help the people strengthen their calls for accountability, transparency, and rule of law.

The State Department already provides grants to support and expand the use of counter-censorship tools, secure mobile communications, and other technologies to help activists and journalists get their messages and videos past government obstacles. While we respect the Iranian opposition's desire to operate without financial or other material support from the United States, we are committed to using diplomatic tools to assist those who want our assistance in speaking out and defending fundamental rights and freedoms. The United States stands in solidarity with those opposed to government-sanctioned harassment, detention, torture, imprisonment, and execution of anyone who dares express ideological, religious, or political differences from the regime's repressive, totalitarian vision.

In Iraq, Iran directly supports extremist groups that target our troops, and there is concern that our military withdrawal at the end of the year will allow Iran to expand its anti-American influence in Iraq. However, we also know that Iranian efforts to project a negative influence into Iraq, either directly or through local proxies, is rejected by most Iraqis. Iraqis vigorously defend their sovereignty and remain deeply distrustful of Iran following the Iran-Iraq war in the 1980s. According to a recent opinion survey, 60% of all Iraqis hold a negative view of Iran, and only 16% having a positive view. Iraq's leaders have likewise shown they reject Iranian attempts to influence their domestic politics.

Prime Minister Maliki has said he will not tolerate the violent activities of militant groups in Iraq, including those who are backed by Iran. These militant groups outside of the law and have killed thousands of innocent Iraqis. The Iraqi Security Forces are the legitimate defenders of Iraqi security and stability, and have shown the capability to conduct operations against these groups. In 2010, with U.S. encouragement, Iraqi leaders formed an inclusive and representative government on Iraqi terms, resisting Iranian pressure to form a narrow Shia-dominated government. And while it is natural for two neighboring countries to seek constructive and peaceful ties, Iraq's growing relations with EU countries and regional players like Turkey are positive indicators of the Iraqis' desire to diversify their foreign relations. Iraqi Foreign Minister Hoshyar Zebari highlighted the Iraqis' commitment to independence in a joint press conference with the Iranian Foreign Minister on October 31, when in reference to the U.S. troop withdrawal he stressed that "no other party can fill the vacuum in Iraq, except the people of Iraq and the government of Iraq." To ensure this happens, we are working with Iraqi security forces to increase their professional capabilities beyond 2011 through our Office of Security Cooperation as well as our Police Development Programs. President Obama reaffirmed our shared vision for a strong and enduring strategic partnership with Iraq in his conversation with Prime Minister Maliki October 21,

and Prime Minister Maliki expressed his commitment to this partnership, as outlined under our Strategic Framework Agreement. Prime Minister Maliki will come to Washington in December to cement our new relationship with Iraq leading into 2012, a relationship based on mutual interests and mutual respect. Through the Strategic Framework Agreement, we will continue to help Iraq establish credible public institutions that reinforce its right to determine its political destiny and resist unwanted, undue outside influence from countries like Iran.

Since 2009, this Administration has used an increasing variety of tools, expanded its partnerships, and coordinated numerous international efforts to deter Iran from developing nuclear weapons, continuing its human rights abuses, and supporting regional instability.

Sanctions are having an effect. Iran is increasingly on the wrong side of history, at home and in the region. We will continue to work with this Congress and our international partners as we implement both tracks of our dual-track policy, shine a spotlight on Iran's violation of universal rights, and prevent Iran from developing nuclear weapons. It is ultimately in Iran's interest to come clean on all of these fronts and to rejoin the international community as a responsible member. Until then, it only faces growing isolation and condemnation.

Mr. CHAFFETZ. Thank you, Mr. Wooster.

We will now recognize Dr. Kahl for 5 minutes.

STATEMENT OF COLIN H. KAHL, PH.D.

Dr. KAHL. Chairman Chaffetz, Ranking Member Tierney, distinguished committee members, I appreciate the opportunity to appear before you today to discuss the Department of Defense's role in the administration's policy toward Iran.

As you know, the President has made Iran one of his very top national security priorities. The Defense Department plays a supporting role in our whole-of-government dual track approach of engagement on the one hand and pressure on the other, which is led by the State Department and the Treasury Departments.

However, a supporting role for DOD should not be interpreted by anyone as a minor role. In support of interagency efforts to prevent Iran from acquiring nuclear weapons and to counter its destabilizing efforts and activities in the region, the Defense Department focuses on four main lines of effort: first, ensuring Israel's security; second, building partnership capacity in the region; third, developing a regional security architecture, especially in the Gulf; and four, prudent defense planning.

Let me begin with the first one, Israel. Iran's nuclear and missile programs and its sponsorship for terrorism represent a significant threat to Israel. In the face of this threat, we, the United States, are working closely with the Israelis to develop multi-layered ballistic missile defenses, and we continue our efforts to ensure Israel's qualitative military edge.

The U.S.-Israel defense relationship is strong and enduring. Indeed, based on joint military exercises like JUNIPER COBRA, and continued cooperation, both Secretaries Panetta and Secretary Gates before him have called the relationship with Israel, "stronger than ever." We regularly consult with Israel and maintain a close, extensive, and very frank defense dialog.

We also continue unprecedented cooperation with the Israeli Defense Forces to ensure that the qualitative military edge extends to all present and future threats. As you know, Israel is the only nation in the region that will receive fifth-generation aircraft in the form of the Joint Strike Fighter. Another example is your support for President Obama's request to provide an additional $205 million to Israel for the Iron Dome short range rocket and mortar defense system. As you are probably aware, Iron Dome has already proved effective in the field, successfully striking down rockets that would have otherwise landed on Israeli civilian targets.

These efforts to buttress Israel's security help underline our general message to Iran, which is pursuing nuclear weapons offers Iran no true benefits and efforts to destabilize the region through proxies and support through terrorism ultimately will not succeed.

We also continue to work with our partners elsewhere in the region to build capacity to defend them against Iran's destabilizing activities. By the end of next month in Iraq, we will complete the drawdown of U.S. forces in accordance with the U.S.-Iraq Security Agreement. Some have expressed concerns that we are leaving behind a vacuum for Iran to fill. However, we are not disengaging from Iraq, and there is no vacuum for Iran to fill.

Due to the extraordinary sacrifices of U.S. Armed Forces, civilians, and Iraqis, Iraq has emerged as an increasingly stable, sovereign, and self-reliant nation. Iraq has no desire to be dominated by Iran or anyone else. Iraqi nationalism is strong, and the Iraqis have consistently shown their willingness to resist the Iranians when they have overreached. Moreover, as Iraq's economy continues to grow, particularly its oil industry, we expect that Iraqi self-confidence will grow as well.

The Iraqis have also made clear that they have a strong desire for an enduring relationship and strategic partnership with the United States, including robust security cooperation, as we will pursue this partnership under the 2008 U.S.-Iraq Strategic Framework Agreement.

The recent decision, for example, for the Iraqis to purchase U.S. F–16 aircraft is just one example of Iraq's interest in a long-term defense relationship with us. Iraq is now our ninth largest customer in terms of foreign military sales and the fourth largest in the region. Continued security ties through our Office of Security Cooperation in Baghdad and security assistance activities such as Foreign Military Sales [FMS], and theater engagement activities that U.S. Central Command will engage in, will deepen this partnership in the years ahead.

Similarly, in Lebanon we are working to strengthen Lebanon's national institutions and its ability to exercise its sovereignty and authority over all of its territory. Central to this work is the development of the Lebanese Armed Forces through our continued training, assistance, and military efforts. Since 2008, the United States has been committed to helping the Lebanese Armed Forces effectively counter the operations of terrorists within Lebanon, secure Lebanon's borders, and work alongside the U.N. to implement all Lebanon-related U.N. Security Council resolutions.

DOD is also working closely with its Gulf partners to develop a common regional security architecture, one that includes both bilateral and multilateral elements. These initiatives include a regional network of air and ballistic missile defense, shared early warning systems, counterterrorism and counterpiracy efforts, programs to build partner capacity, and projects to harden and protect our partners' critical infrastructure.

We currently have substantial missile defense assets in a number of Gulf partner nations to protect U.S. forces and partners from the threat of Iranian missiles, and U.S. Central Command maintains robust theater engagement and exercise schedules to buttress these partnerships.

As we improve our bilateral and multilateral cooperation, we are also working to build the defense capabilities of our partners. Indeed, the Middle East accounts for a large portion of U.S. military worldwide FMS activity, particularly with Saudi Arabia, UAE, Egypt, Israel, and Iraq. Indeed, in the past 10 years these five countries account for more than $66 billion in active FMS cases.

Last, let me turn to DOD planning. When it comes to Iran, we know that there are no overnight solutions; and we also know that many of our diplomatic, economic, and security cooperation efforts are just now beginning to bear fruit, as evidenced by the Iranian President Ahmadinejad's recent statements that Henry mentioned.

At the same time, we know that Iran has not ceased its proliferation activities, nuclear activities, or support for terrorism. For that reason, the Department continues to prepare for all contingencies.

On this point, let me be clear. It is the Department of Defense's responsibility to plan for all contingencies and to provide the President with a wide range of military options should they become necessary. That's a responsibility we take very seriously; and when it comes to the threat posed by Iran, the President has not taken any options off the table. But I also want to emphasize our continued belief that, at this time, diplomacy and pressure remain the most effective tools for changing Iran's behavior.

With that, I thank you once again, and I look forward to answering your questions.

[The prepared statement of Dr. Kahl follows:]

TESTIMONY OF DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR THE MIDDLE EAST DR. COLIN KAHL BEFORE THE HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE UNITED STATES HOUSE OF REPRESENTATIVES NOVEMBER 15, 2011

Chairman Chaffetz, Ranking Member Tierney, distinguished committee members, I appreciate the opportunity to appear before you today to discuss the role of the Department of Defense in the Administration's policy towards Iran.

As you know, the President has made Iran one of his top national security priorities. The Department of Defense plays a supporting role in our whole-of-government strategy of engagement and pressure toward Iran, which is led by the State and Treasury Departments. However, a supporting role should not be confused with a minor one.

In support of interagency efforts to prevent Iran from acquiring nuclear weapons and counter its destabilizing efforts, the Department of Defense focuses on four major lines of effort. These efforts are: (1) ensuring Israel's security; (2) building partnership capacity in the region; (3) developing a regional security architecture in the Gulf; and (4) prudent defense planning. Let me begin with Israel.

Israel

Iran's nuclear and missile programs and its sponsorship of terrorism represent a significant threat to Israel. In the face of this threat, we are working closely with the Israelis to develop multi-layered ballistic missile defenses, and we continue our efforts to ensure Israel's Qualitative Military Edge. The U.S.-Israel defense relationship is strong and enduring. Indeed, based on joint military exercises such as JUNIPER COBRA, and continued cooperation, both Secretaries Panetta and Gates have called it "stronger than ever." We regularly consult with our Israeli allies and maintain a close, extensive and very frank defense dialogue.

We also continue our cooperation with the Israeli Defense Forces to ensure that their qualitative military edge extends to all present and future threats. As you know, Israel is the only nation in the region that will receive fifth generation aircraft in the Joint Strike Fighter. Another example is your support of President Obama's request to provide an additional $205 million to Israel for the Iron Dome short range counter mortar and rocket defense system. Iron Dome has already proved effective in the field, successfully striking rockets headed for Israeli civilian targets.

These efforts to buttress Israel's security help underline our message to Iran: pursuing nuclear weapons offers Iran no true benefits, and efforts to destabilize the region through proxies and support for terrorism will not succeed.

Building Partnership Capacity

We continue to work with partners in the region to build capacity to defend against Iranian destabilizing influence, particularly in Iraq and Lebanon. By the end of next month, we will complete the drawdown of U.S. forces in Iraq, in accordance with the 2008 U.S.-Iraq Security Agreement. Some have expressed concerns that we leaving behind a vacuum for Iran to fill. However, we are not disengaging from Iraq, and there is no vacuum for Iran to fill.

Due the extraordinary sacrifices of our armed forces, civilians, and the Iraqis, Iraq has emerged as an increasingly stable, sovereign, and self-reliant nation. Iraq has no desire to be dominated by Iran or anyone else. Iraqi nationalism is strong, and the Iraqis have consistently shown their willingness to resist the Iranians and their surrogates when Tehran has over-reached. This will continue as Iraq's economy grows, particularly through its oil industry.

The Iraqis have also made clear that they desire a strong and enduring relationship with the United States, including robust security cooperation, and we will purse that partnership under the Strategic Framework Agreement. The recent Iraqi decision to purchase American F-16s is just one example of Iraq's interest in a long-term defense relationship. Iraq is now our 9th largest customer in terms of foreign military sales, and 4th largest in the region. Continued security ties through our Office of Security Cooperation and Security Assistance activities such as

Foreign Military Sales (FMS) will deepen this partnership in the years ahead and assist the Iraqis in resisting Iran's coercive diplomacy and support for militant proxies.

In Lebanon, we are similarly working to strengthen Lebanon's national institutions and its ability to exercise its sovereignty and authority over all of its territory. Central to this work is the development of the Lebanese Armed Forces (LAF) through training, assistance, and military aid. Since 2006, the United States has been committed to helping the LAF effectively counter the operations of terrorists within Lebanon, secure Lebanon's borders, and work alongside UNIFIL to implement all Lebanon-related United Nations Security Council Resolutions (1559, 1680, and 1701). Effectively implementing these resolutions requires ending Iranian and Syrian support for Hezbollah, and undermining Hezbollah's militant activities in southern Lebanon and beyond Lebanon's borders. The LAF is the only institution trusted by Lebanon's diverse population and it is considered apolitical, professional, and non-sectarian—and our continued support to the LAF, over the long-term, offers the best counterweight to Iran's destabilizing support for Hezbollah.

Regional Security Architecture

DoD also works closely with our Gulf partners to develop a common regional security architecture, one that includes both bilateral and multilateral

security initiatives. These include a regional network of air and ballistic missile defenses, shared early warning systems, counter-terrorism and counter-piracy efforts, programs to build partner capacity, and projects to harden and protect our partners' critical infrastructure.

We currently have substantial missile defense assets in a number of Gulf partner nations to protect our forces and partners from the threat of Iranian missiles. USCENTCOM maintains a robust exercise schedule in the region, as well as a robust force presence to enhance stability and deter regional aggression. We also maintain a full schedule of bilateral and multilateral defense engagements with our Gulf State counterparts, going up to the highest levels. The Department's senior leadership frequently travels to the region and hosts counterpart visits in Washington, D.C.

As we improve bilateral and multilateral cooperation, we are also working to build the defensive capabilities of our partners and improve interoperability with U.S. and regional forces. Much of this is accomplished through our foreign military sales, or FMS. The majority of U.S. worldwide FMS activity is in the Middle East, particularly with Saudi Arabia, UAE, Egypt, Israel, and Iraq. These sales serve to bolster our partners' capabilities in this critical region.

We have an enduring commitment to our partners to counter, protect, and defend against regional threats, and our extensive security cooperation efforts and engagements reaffirm that commitment. It is also a strong signal to Iran that their nuclear ambitions and destabilizing behavior will ultimately make them less—not more—secure.

DoD Planning

When it comes to Iran, we know that there are no overnight solutions, but many of our diplomatic, economic, and security cooperation efforts are beginning to bear fruit, as evidenced by Iranian President Ahmadinejad's recent statement regarding the impact of sanctions. At the same time, we also know that Iran has not ceased its proliferation sensitive nuclear activities or support for terrorism. For that reason, the Department continues to prepare for all contingencies.

On this point let me be clear: it is the Department of Defense's responsibility to plan for all contingencies, and provide the President with a wide range of military options should they become necessary. That's a responsibility we take very seriously, and when it comes to the threat posed by Iran, the President has not taken any options off the table.

But I also want to emphasize our continued belief that at this time, diplomacy and pressure *remain* the most effective tools for changing Iranian

behavior. That's something Secretary Panetta—and Secretary Gates before him—have repeatedly said.

In conclusion, through close security cooperation with regional partners and prudent planning, DoD activities seek to counter Iran's destabilizing activities, support efforts by the State and Treasury Departments to encourage Iran to change course on its nuclear program, and provide the President with the full range of options to achieve our national objectives.

Thank you once again. I look forward to answering your questions.

Mr. CHAFFETZ. Thank you.

I know this is a very complicated and deep subject. To try to summarize in 5 minutes is difficult, but we do appreciate it.

I would now like to recognize myself for 5 minutes.

Mr. Szubin, you are the Director of the Office of Foreign Assets Control [OFAC] as it is often referred to. How many people do you have in your group or your department?

Mr. SZUBIN. It is about 165.

Mr. CHAFFETZ. And how many of them actually work on this particular issue?

Mr. SZUBIN. Iran has been the number one priority for us. It is difficult for me to give you an FTE number because we divide up our functions by the operations. So we have licensing officers, enforcement officers, people who prepare the designation——

Mr. CHAFFETZ. If you had to guess, how many people would you guess are actually working on this?

Mr. SZUBIN. It would be hard to put a number on it. I can go back and try to come back to you with an estimate. But it is our number one priority and has been for as long as I have been at OFAC, which is 5 years.

Mr. CHAFFETZ. According to Mr. Dubowitz, who testified on the panel just before us, China is the largest importer of Iranian oil behind the European Union. Companies owned by the Chinese Government are also suppliers of illicit materials in support of Iran's nuclear weapons program. Is the United States enforcing sanctions against the Chinese Government or any Chinese entity?

Mr. SZUBIN. Absolutely. And I will defer in a moment to Mr. Wooster, who can speak to the State Department sanctions, but we at Treasury have imposed sanctions against Chinese companies, including some state-owned firms that were providing parts and equipment to Iran's missile procurement efforts.

Mr. CHAFFETZ. And how many companies are you investigating at the current time? What does the universe of that look like?

Mr. SZUBIN. Chinese companies?

Mr. CHAFFETZ. Uh-huh.

Mr. SZUBIN. I am not at liberty to disclose that.

Mr. CHAFFETZ. Let me go to another part here.

Following the exposure of the Iranian plot to potentially assassinate Saudi Arabia's Ambassador to the United States, the Obama administration actually floated the idea of sanctioning the Iranian Central Bank. In fact, 92 U.S. Senators out of a hundred signed a letter suggesting in support of that. Where is that in its progress? What would be the effect of that? Is that something that the Obama administration has abandoned?

Mr. SZUBIN. As Under Secretary Cohen has mentioned, including in testimony recently, the point is that proposal or idea has not been abandoned. It is very much on the table, as are all options that we could take that would credibly and meaningfully impact Iran and deter its efforts.

Mr. CHAFFETZ. But why not do it? Why not do it?

Mr. SZUBIN. The issues are several. We need to analyze any prospective option in terms of the evidence that is available to us, of course, the impact that it would have on Iran, and the impact that it——

Mr. CHAFFETZ. But we want to have the maximum effect on Iran, right? So are we just—I mean, is there a spectrum here that says, well, we don't want to be too hard?

Mr. SZUBIN. No, no, no.

Mr. CHAFFETZ. Okay. So why—I mean, you listed that as your second consideration. Why is——

Mr. SZUBIN. Well, I think it needs to be measured against my third consideration, which is what would the impact be on the United States and our allies and other countries around the world. If we are considering an action——

Mr. CHAFFETZ. So give me an example of how that would impact the United States.

Mr. SZUBIN. I am happy to. If we are considering an option that would have a low-to-moderate impact on Iran and would have a serious negative impact on the United States or our allies, then that is a way——

Mr. CHAFFETZ. What would be this serious? Can you give me an example of where that would be a serious impact to the United States?

Mr. SZUBIN. I am happy to. I would just apologize in advance. I am not an economic analyst, and so my familiarity with economic modeling may not be up to your satisfaction. But in the oil discussions in particular, there are very real scenarios in which an oil price spike might hit that could result in somewhat of a decrease——

Mr. CHAFFETZ. So we are not willing—this is what is mystifying. It came out in the first panel, too. But this is the concern, that you are somehow gauging—the Treasury Department is somehow gauging the price of oil—and I am trying to figure out what price per gallon are we not willing to pay? I mean, why is the price of a gallon of gas the primary driver in the Obama administration's quest to supposedly make sure that they don't get a nuclear bomb, for goodness sake? Why is the price of gas one of those? Twice you have listed it off right near the top of the list. Is that really the concern?

Mr. SZUBIN. The price of oil is not the primary driver. It is certainly a consideration, because it is a primary driver of the recovery that is going on worldwide and the strength of our economy and that of many of our allies.

Mr. CHAFFETZ. When will you make a decision about whether or not to pursue this Iranian Central Bank sanction? What is the timeline here? When are we going to have a decision?

Mr. SZUBIN. I can't answer that.

Mr. CHAFFETZ. Why not? Who makes that decision?

Mr. SZUBIN. The decision will be made by the administration as a whole.

But I do want to challenge the notion that it is a question of how much of a price uptick are we willing to take on ourselves in exchange for a profound impact on Iran. If there is a hike in the price of oil, Iran gains. If there is a spike in the price of oil, Iran could be facing a windfall. And so there are scenarios in which—and they are plausible scenarios—in which there could be profound harm to the global economic recovery and a windfall to Iran. I don't think

that is what any of us are looking for. It is a scenario we need to proceed I think with——

Mr. CHAFFETZ. My time has expired. We need to get to the other Members.

But the fact you have 92 U.S. Senators, in a very bipartisan way—and this is something, an idea that was floated out there by the Obama administration, and now we are pulling back on it, is really quite stunning.

I will yield now 5 minutes to the gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you.

Mr. Szubin, I didn't hear you say that you were pulling back on it. Are you pulling back on it?

Mr. SZUBIN. No. As I said, the option remains on the table.

Mr. TIERNEY. That is what I thought I heard you say. And I suspect you are considering whether or not doing it would have an adverse effect of causing Iran to get enriched by that action, therefore totally disregarding the effect on it and making it useless, in effect.

Mr. SZUBIN. That is correct. And potentially worse than useless, potentially resulting in a boon to Iran.

Mr. TIERNEY. Emboldening them even more on that. So that would seem to me a useful thing to consider before you went and did that. But others might feel differently on that.

So it seems to me that people that want to be critical first on the one hand say what a great job this administration has done on sanctions and internationalizing them and having it move forward and then they qualify that by saying in the medium and the long-range, but they don't think it is a going to be immediate enough to actually reach the goal, which is to somehow impede the development of nuclear power capacity on that. So are we doing all that should be done to impede that in time so that one doesn't always outstrip the other? And what else ought we be doing?

I want to ask each of you that.

Mr. SZUBIN. First, I do think that experts across the spectrum have acknowledged that the pressure on Iran, especially in recent months, has grown to an unprecedented level. Iran is more isolated than ever financially in terms of trade, in terms of investment in its oil sector, and politically. And the IAEA Board of Governors report and the revelation of the Arbabsiar plot to assassinate the Saudi Ambassador to the United States have greatly compounded Iran's isolation and its problems.

In terms of are we doing everything? We are certainly trying. This is my number one priority. And we are trying to identify every possible option we can take. Whether it is a U.S. unilateral action in the form of an OFAC or a State Department designation, whether it is a multilateral concerted effort we can take with allies, or whether it is action in New York pursuant to a U.N. Security Council resolution, we are trying to identify every possible lever that we can push that would exert additional impact; and I commit to you that we will continue to be relentless about that.

Mr. TIERNEY. Thank you.

Mr. Wooster.

Mr. WOOSTER. Congressman Tierney, in response to your question about what we are doing, as Adam has rightly said, it cer-

tainly occupies the bulk of my life and that of my team. And we have 39 people in the Office of Iranian Affairs, 17 of them overseas, 22 domestically. We are engaged on this all the time. We are engaged on it in Washington. We are engaged on it in terms of contributions that reporting officers are making in the field well beyond the ones I named in terms of the office's own assets. This is a whole-of-government approach. I believe Under Secretary Sherman has been emphatic in declaring that aspect of it.

Yesterday, I know Adam and I spent probably more time with than we would care to with one another at the White House going over the particular details of this issue with a host of other actors as well.

On the diplomatic front in terms of the Department of State, what we keep a particularly close eye on, of course, is the point where we can obtain optimal leverage, maximum leverage, and at the same time we are not alienating key people that we need to work with in a coalition. Where these are stronger, they are more effective, they are more fearful, even if it is just the optics of it as well, and in actuality the bite is much deeper when we have a united front, when we have a coalition.

To date, we can report success, notwithstanding the points that Representative Chaffetz has mentioned, in terms of China. I know it is a continuing concern with the Congress. There just aren't easy responses to that. But, nonetheless, we have six U.N. Security Council resolutions where they, too, have put ink on the paper; they, too, have assented to this; and they agree on the fundamentals, as do the Russians, that the idea of this regime having a nuclear weapon is not a good one.

Mr. TIERNEY. We have had people make the argument to us that at some point you could take an action that in fact would go beyond hurting the Guard, the Qods Force, the regime, and hurt the Iranian people and make their lives so miserable that at some point they start to support a government that right now many of them might be inclined to resist. Is there such a tipping point, in your view, and do you take that into account in your calculations?

Mr. WOOSTER. Yes, sir. In terms of a tipping point, I can't offer you an exact point on the curve where that is located. But there is.

I mean, we have witnessed, most particularly around the issue of the nuclear question, a lot of this data is available through—in fact, the overwhelming amount of is it is available through public polling, Iranian polling, third government polling, academic institutions, think tanks, and, of course, in terms of resources that each government has, particularly our allies.

But it comes up resoundingly with the conclusion that the nuclear issue is very much one of those events. There is a lot of nationalism behind the notion of a nuclear Iran. There, of course, are deleterious effects as well. But the fact is that a good number of Iranians are very much united around the issue of their country, too, being a member of the, if you will, nuclear club. So it is something that we keep an eye on.

Our—as I mentioned at the outset of my remarks, the paramount objective for us is ensuring that the regime does not obtain a nu-

clear weapon. Between that point, the apex, if you will, and the area below it, there is considerable room for maneuver.

Mr. TIERNEY. Thank you.

Thank you, Mr. Chairman.

Mr. CHAFFETZ. Now recognize the gentleman from Illinois, Mr. Quigley, for 5 minutes.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Dr. Kahl, the International Atomic Energy Agency report that just came out, obviously quite sobering but not a surprise to anyone. We have been at this a little while now. A window to do something seems to be narrowing. What is the plan? It seems tough to say here, but it seems almost inevitable. What is the plan? What do we do if we have a nuclear Iran?

Dr. KAHL. Well, first of all, it is obviously our policy to prevent Iran from getting a nuclear weapon. The administration sees that, the acquisition of a nuclear weapon, as unacceptable. You know, how much time we have, I think there is some debate in that.

Obviously, the IAEA report is troubling. I think that, though, there is still time to keep on the path that we are on now, which is to turn up the heat diplomatically and through economic pressure.

Meanwhile, ensuring that the President has all options available to him so that when he says all options are on the table, those options are viable. So the Defense Department's activities currently are oriented in the region to convey to Iran our resolve to counter their destabilizing activities and their aggression, to defend our partners, and to deny the benefits of their nuclear and ballistic missile program through our defense activities.

But I think it is our view that we still have some time and that any discussion of military action or something else has to be viewed very much as a last resort, given the highly uncertain consequences that that action would have.

Mr. QUIGLEY. I get it. But I have only been here a short time now. I am in my second term. But I feel like Bill Murray in Groundhog Day, right?

I mean, I have been at this meeting before. And we could save the tapes—and no disrespect—we could have this meeting again next year, and we could be talking—last year, I believe we were talking about years. Now we are talking about a year from a very credible agency.

And what we have also seen is that the window tends—every time we hear something else, the window is narrower. There is exponential growth. It is very scary.

So this last year went by very quickly since we had a significant discussion about that. So I get it. And I voted for sanctions, and I am up for all options. But, you know, I am not sure we are—Monty Hall is pointing to door number two or door number three at some point in time.

Are we ready, facing what is—whether there is a debate or not—a very credible agency is less than a year now. We have our allies, we have our troops, we have destabilization. Prime Minister Netanyahu talked about exporting a very strong threat. So, beyond all that—I know you don't want to talk about it—but is there a plan? Are we ready?

Dr. KAHL. So I think we need to treat all these timelines with—kind of put an appropriate context around them. So when you have groups estimating 1 year, 2 years until they could have a testable nuclear device, the important caveat in that is from a decision by the Iranian Government to dash for a nuclear device. There is no evidence that that decision has been made. So that 1 year in a sense is sliding.

So part of the reason why you have this Groundhog Day is a couple of years ago you might have heard a similar estimate, but that was also based on the notion that the Iranians hadn't made a decision. So what's clear is what the Iranians are doing is trying to put themselves into a position in which the Supreme Leader can make a decision, and we do have to be worried that when and if that decision is ever made the time to actually complete a testable device could shrink over time. So we are watching that very, very, very carefully.

But I think we still do have some time. But it is the responsibility of our Department to do prudent planning to ensure that all options are available when and if we detect that Iran has made a decision to do this.

Mr. QUIGLEY. That's as good as it gets, Mr. Chairman. I thank you, and I yield back.

Mr. CHAFFETZ. Thank you.

I now recognize the gentleman from Vermont, Mr. Welch, for 5 minutes.

Mr. WELCH. Thank you very much.

Mr. Wooster, I am wondering, can you describe what the competing arguments are within Iran, as you see it, on this question of proceeding aggressively toward the development of a nuclear weapon?

Mr. WOOSTER. I can comment, if you will, or make some observations about the national level discussion. Is that what you mean?

Mr. WELCH. Right. And I am assuming there is some internal debate, that there are forces that are arguing for an aggressive approach. There are probably some forces that are arguing against that. I am wondering about your Department's assessment of what those arguments internally within Iran are, who is making them, and who is prevailing.

Mr. WOOSTER. Thank you.

Well, the party lines, if you will, are drawn fairly clearly. They have been for some time. Some of the names and personalities have changed, but there remains a hard core inner circle who are keen to develop a nuclear program. That has been demonstrated for years.

The IAEA report demonstrates also what the United States has known for a long time, that Iran had a nuclear weapons program. We have continuing concerns about that. That is emphatically clear to all of you. As one of your colleagues mentioned, we have all seen that before.

In terms of the debate within the country, a good number—remember, the astonishing—one of the astonishing facts about Iran is that we have an extraordinary demographic, 70—75 million people, 70 percent of whom are 30 something or under. It is really extraordinary. So you have a lot of folks who look toward the future

and who think about what their prospects are. And when they do, the notion of living in a pariah state, where options are foreclosed to them in terms of business, travel, education, that's not a heartening prospect for them. And they've demonstrated that.

Those folks obviously are keen, notwithstanding whatever sympathy they may have to see their nation, if you will, belly up to the bar with other nuclear powers, to be recognized as a great country or a great power. Nonetheless, they haven't demonstrated that element that I am speaking of, hegemonic tendencies. They wouldn't fit into the camp of what we would call those with desires for destabilizing regional influences. Many of them are keen on rapport with the West, particularly with the United States. But—and this is a big but—they don't hold the power.

So the folks who have the power, the predominant power, this is—again, you are familiar with the host of characters: the Supreme Leader, the IRGC, its constituent elements such as the Qods Force, and various other deeply conservative political figures. But again, beyond that circle—and that is a relatively small circle, but it is a very powerful circle—there is room for maneuvering.

Mr. WELCH. That being what?

Mr. WOOSTER. I am sorry?

Mr. WELCH. What would that room for maneuver be?

And then Dr. Kahl can comment on that as well.

Mr. WOOSTER. We find that the Iranians remain extraordinarily interested in the United States. It is the aspiration of a good number of Iranians, the older Iranians, to send their children here to be educated, to visit, to travel, to have the opportunity to enjoy aspects of American culture and education that they knew in another era. That's not an option. They show up——

Mr. WELCH. I am going to be out of time. I would just like to hear a little bit from Dr. Kahl. I hate to interrupt, but it is a time issue.

Mr. WOOSTER. Certainly. Please.

Dr. KAHL. I think in general, again, our role is to try to convince the Iranian leadership that they will be less safe, not more, if they keep going on this nuclear weapons path. So we are doing that, again, by trying to deny them the benefits of those activities through our security cooperation relationships in the Gulf, our ballistic missile defense architecture, our efforts to build up their capabilities, our efforts to work with Israel on their defenses and provide for their qualitative military aid.

So all of that is oriented, again, against—about sending the Iranians a very clear signal that not only are they facing increasing diplomatic and financial isolation but they are aligning the rest of the region against them in a way that's going to make them profoundly unsecure. And so this is trying to create an incentive structure that leads them to one conclusion, which is they should stop doing this. So that's our number one objective.

I would just say, on the young people in Iran, you know, there is a lot of evidence that they think—many of them think very favorably of the United States. So I think we need to be careful in a lot of what we do to make sure that we are not alienating a group of individuals that we want to work with and have a rela-

tionship with over the long term, as long as they can stop being held hostage by their government.

Mr. WELCH. Thank you very much. Yield back.

Mr. CHAFFETZ. Thank you.

I now recognize myself for an additional 5 minutes.

Mr. Wooster, I want to make sure I heard you properly. When talking about the IAEA report, you said that Iran had a nuclear program. They currently have one, though. Is that correct? They have had one, and they have one.

Mr. WOOSTER. Sir, it was that they had a nuclear weapons program. Not a nuclear program but a nuclear weapons program.

Mr. CHAFFETZ. Do you believe that they have one now?

Mr. WOOSTER. They provided no assurance that they have abandoned the pursuit of a nuclear weapon.

Mr. CHAFFETZ. I am asking what—do you believe the report that was just issued or not?

Mr. WOOSTER. Sir, the administration's position is—and has been for years—reflected in what you see in the report. The report remains a restricted document, although I am aware that it has been leaked to folks and it is available on the Internet.

The limits—because we are having a conversation about these issues with ministers today—excuse me, Thursday and Friday in Vienna, there are limits on what I can say in this setting. I can't offer my personal opinion.

Mr. CHAFFETZ. I am trying to get—I am sorry, I wasn't trying to get your personal opinion. I want to understand the administration's opinion as to whether or not they believe that they have a nuclear weapons program. No or yes?

Mr. WOOSTER. We remain concerned that the Iranian regime has obfuscated on precisely this issue. We don't have transparency. We want to know, we want certainty that they do not have a weapons program. That's what we are seeking.

Mr. CHAFFETZ. Mr. Dubowitz listed 18 firms—I will come back to Mr. Szubin here. Mr. Dubowitz listed 18 firms connected to the Islamic Revolutionary Guard, IRGC, which formed part of the crude oil supply chain. These firms' activities were detailed in a report from the Foundation for the Defense of Democracies to the administration in February. So I want to come back to this issue and say where are you at in sanctioning these particular 18? And what's happening with this report? This has been since February.

Mr. SZUBIN. And we have that report. And we have had our analysts take a very careful look at it.

As you have seen, if you have been following the releases from our Department, we have made sanctions against the IRGC and its entities the key plank in our Iran strategy on the reasoning that the IRGC is one of the most culpable actors for supporting terrorism, supporting WMD development, and including repression, including in Syria. But also on the reasoning that IRGC is becoming increasingly unpopular in Iran. And so it plays into this domestic discontent which I think is going to be key if these sanctions do have the impact we are looking for.

We have announced sanctions against lots of IRGC fronts, including their largest port operator and a whole host of companies; and we have also designated companies in Iran's oil infrastructure. And

we have been able to get the United Nations as well to act in this area by restricting petroleum imports into Iran.

Mr. CHAFFETZ. What about these particular 18?

Mr. SZUBIN. On these particular 18, I can't comment on which we are poised to designate. We don't comment on upcoming designations. But I can say that to designate any and all IRGC companies is very much consistent with what has been our strategy.

Mr. CHAFFETZ. I guess the concern is you have had this report since February, and I just would appreciate an update as one becomes more publicly available.

Let me go back to you again, Mr. Szubin, here. Is the administration prepared to sanction Chinese firms like—I am going to pronounce this improperly—Zhuhai Zhenrong, a subsidiary of NORINCO, which is openly flouting these sanctions at this time? Are you familiar with this organization? I am sorry. My pronunciation is terrible.

Mr. SZUBIN. I believe that is an energy firm; is that right?

Mr. CHAFFETZ. Yes, correct.

Mr. SZUBIN. So I would defer to my colleague from the State Department, who administers the energy sanctions.

Mr. CHAFFETZ. Mr. Wooster, are you familiar with this firm and where we are at on this?

Mr. WOOSTER. I am not so familiar with the particulars of the firm. I am familiar with the concerns about China and the energy sector.

Primarily, our concern there is that, because the Chinese have in fact been pulling back in this area and because we have engaged at the highest levels, the President has engaged, the Secretary of State and others, we have also wanted them not to in particular backfill behind any other energy firms that have left. And to date—and to date we can report that what we are seeing is satisfactory. We continue to keep an eye on it. We continue to discuss it. It was discussed in Beijing less than a week ago with Deputy Secretary of State Burns, and we continue to keep a close eye on this.

Mr. CHAFFETZ. And the last point I would like to make here before we wrap up, Mr. Wooster, there is deep concern about our presence in Iraq after the 31st of December, with the Department of Defense pulling out, 16,500 people there under the control of Secretary Clinton. How prepared are we for what may or may not happen come January 1st?

Mr. WOOSTER. Sir, I have limited capability to give you a good response about the management particulars of the Department in terms of its Iraq-particular preparations. However, what I can say from the policy perspective is that we are committed to a long-term relationship with Iraq. No one should doubt the U.S. Government's commitment to that country.

We have a transition now in our relationship with Iraq. It is tempting to see it as going from black to white, but in fact it is not. It is a transition. We're moving from one phase in our relationship to another phase in that relationship. Again, our commitment to the region and to Iraq is longstanding, and it endures.

Mr. CHAFFETZ. Thank you.

I appreciate your all being here, for your testimony here today, and the work that you do on behalf of our country. Again, we appreciate your presence.

The committee now stands adjourned.

[Whereupon, at 11:48 a.m., the subcommittee was adjourned.]