IRAN: RECENT DEVELOPMENTS AND IMPLICATIONS FOR U.S. POLICY

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IRAN: RECENT DEVELOPMENTS AND IMPLICATIONS FOR U.S. POLICY

WEDNESDAY, JULY 22, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m. in room 2172, Rayburn House Office Building, Hon. Howard L. Berman (chairman of the committee) presiding.

Chairman BERMAN. The committee will come to order. I believe the ranking member will be joining us in just a moment. But before I begin my opening statement, I want to make mention several procedural issues.

In the context of all of our hearings, we request that the audience members do not hold up or wave signs, make gestures to attract attention, stand up and protest, stand up and shout or yell your views, or otherwise disrupt the hearing. And we will ask the Capitol Police to remove anyone from the room who violates this policy. It is the policy of the Capitol Police to arrest anyone ejected from a hearing room.

After the ranking member and I make our opening remarks, the chairman and ranking member of the Middle East and South Asia Subcommittee will have an opportunity to make 3-minute statements. I would strongly encourage other members to submit their statements for the record or make any comments they may have during their time for questioning, which will be extended for this hearing only.

Because we have such a large panel, I would ask all the witnesses to summarize their statements in 5–7 minutes. Your entire written statements will be made a part of the record.

Finally, the ranking member and I have agreed that all members will be given 7 minutes to question the witnesses. This means that both the questions and answers must be completed within 7 minutes, and we will enforce that time limit strictly. It is not the intention of the chair to break for lunch. We are going to plow right through until we are done and now I will yield myself time for the opening statement.

No, I am not bringing food, either.

On June 12th, Iranians went to the polls in what was expected to be a close Presidential election. But instead of a down-to-the-wire contest, the Iranian Government almost immediately declared that the incumbent had been reelected in a landslide. This hearing takes place in the wake of 6 weeks of post-election turmoil and uncertainty, the most significant internal upheaval since the 1979

revolution. Hundreds of thousands of courageous Iranians have taken to the street in defiance of the regime to protest the election results.

The regime responded brutally to these peaceful demonstrators. By the government's own admission, at least 20 protestors were killed and some 500 are in prison awaiting trial. Most human rights groups say the actual numbers are much higher, with some putting the number killed well into the hundreds.

Iran also barred its domestic and foreign press from covering the demonstration; shut down cell-phone coverage and the Internet for long periods of time to limit communication among the dissidents; arrested foreign journalists; and, in total disregard of international law, broke into the British Embassy to arrest local hires.

The people of Iran should know that the over 1 million Iranians living in America and hundreds of millions of other Americans stand in awe of their courage to stand up for free election. Have no doubt, the American people stand with you.

Post-June 12 events in Iran raise many questions. Has the regime, as many have said, now lost much, if not all, of its legitimacy? Is the clerical elite now irrevocably divided? Has the Iranian Revolutionary Guard Corps become the dominant force in the country? If so, what are the implications of these developments? Should we expect further turmoil? Is the regime's survival in question? And, most important, what are the implications for United States and international efforts to prevent Iran from developing a nuclear weapons capability?

The facts on the ground are deeply disturbing. Iran has made significant progress on its nuclear program, far exceeding expectations of the recent past. According to the International Atomic Energy Agency, Iran has now installed more than 7,000 centrifuges, and has produced enough low-enriched uranium to fuel a nuclear explosive device, were that low-enriched uranium to be transformed into highly-enriched uranium.

And some would point out that this describes only Iran's overt programs; in many quarters, the suspicion lurks that Iran also has a covert program that is even further along.

The nuclear issue is urgent and it is of such overriding importance to America's national security—and to regional stability—that we can't afford to drop the ball. Whatever our feelings about the authoritarian regime in Tehran, that regime continues to hold the reins of power, and for now, I believe President Obama is correct in continuing to pursue a policy of engagement.

Why? Because our previous policy of seeking to isolate the regime simply did not work. Nothing we have done has slowed Iran's drive to acquire a nuclear weapons capability. And only by making a good-faith effort to engage Iran can we build the support we need from the international community to impose the crippling sanctions necessary should engagement fail.

But while it is important to pursue engagement, it is also critical that these efforts be time-limited and that the administration be prepared to try a different approach if Iran is not cooperating.

As I understand it, that is exactly the administration's policy. The President recently said that Iran's willingness to engage will be reevaluated in early fall after the September 24–25 G–20 meet-

ing in Pittsburgh. He has also said that "[w]e're not going to create a situation in which talks become an excuse for inaction while Iran proceeds" on its nuclear efforts. In short, if I can paraphrase the President, we should not allow Iran to run out the clock.

I agree with the President's timetable. If by autumn the Iranians are not responsive to United States efforts to engage them, it likely will be time to move on, hopefully in close coordination with our allies in other key countries.

That is also my approach regarding H.R. 2194, the Iran Refined Petroleum Sanctions Act, which I introduced with the ranking member in April, and which is now co-sponsored by well over half the Members of the House. My bill would impose sanctions on companies that are involved in exporting refined petroleum products to Iran or in helping Iran to increase or maintain its existing domestic refining capacity.

This legislation would force companies in the energy sector to choose between doing business with Iran or doing business with the United States. The Iranian economy is heavily dependent on imports of refined petroleum, so this legislation—if it becomes law—would significantly increase economic pressure on Iran and hopefully persuade the regime to change its current course.

When I introduced H.R. 2194, I said that I did not intend to immediately move it through the legislative process. I wanted—and still want—to give the administration's efforts to engage Iran every possible chance to succeed, within a reasonable time frame. I view the bill as a "sword of Damocles" over the Iranians—a clear hint of what will happen if they do not engage seriously and move rapidly to suspend their uranium enrichment program, as required by numerous U.N. Security Council resolutions. If engagement doesn't work, then I am prepared to mark up the bill in committee early this fall.

Thus far, Iran has not been responsive—not on the bilateral front, and not even on the multilateral front. Last month, Iran cancelled its attendance at the G–8 Ministerial in Trieste, Italy. It has refused to set a date for the next P5+1 meeting. It is now late July—close enough to the administration's time-limit, and to my own, that Iran should be able to hear the clock ticking.

I am now pleased to turn to my ranking member, the gentlelady from Florida, Ileana Ros-Lehtinen for any opening remarks she might want to make.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman.

Thank you for holding this hearing on Iranian internal political and economic developments and the implication for United States policy. We have an impressive group of witnesses, and I look forward to receiving their input.

Mr. Chairman, I had hoped, however, that since this is the first full committee hearing on Iran we have held this year, and in light of your statement during the June 10th floor debate on the Foreign Relations Authorization Bill, that the committee would have hearings in July on how multilateral sanctions and the engagement process, the diplomatic process, has worked, that we would have heard from administration witnesses, and I hope that that will happen.

I respectfully request a follow-up hearing with senior administration officials on this topic. As I mentioned in the hearing earlier this month on the proposed U.S.-UAE Civil Nuclear Cooperation Agreement, I am an equal opportunity worrier. Last July, in a hearing before this committee, I criticized the Bush administration's endorsement of an expanded incentive package under the P5+1, stating it granted undue legitimacy and leverage to the regime in Tehran, and the only thing we have to show for this approach is that Iran is now 2 years closer to nuclear capabilities.

And my remarks, sadly, are as true today as they were then. Just in the 7 years since Iran's illegal nuclear program was uncovered, the United States position has gone from imitating the successful Libya model and calling for a complete, permanent, verifiable dismantlement of Iran's nuclear program; to calling for the cessation of enrichment reprocessing to temporary suspension, to the current United States position, whereby the U.S. has accepted a so-called Iranian civilian nuclear program, is pursuing direct engagement with the Iranian regime, and is now engaged in a proliferation of nuclear cooperation agreements with other countries in the Middle East.

Secretary Clinton stated earlier today that the U.S. would upgrade the defense capabilities of, and extend a defense umbrella over, United States allies in the Persian Gulf. This was met with much concern and skepticism in Israel, where Dan Meridor, the Minister of Intelligence and Atomic Energy, told Army Radio, "I was not thrilled to hear this American statement that they will protect their allies with a nuclear umbrella, as if they have already come to terms with a nuclear Iran."

I would ask our witnesses today for their views on this U.S. approach, whether it signals an acceptance by the United States of a nuclear Iran, and how this impacts sanctions efforts and other efforts. Please comment.

Turning to recent developments inside Iran and how these could affect the regimes' and our strategic calculations, the so-called supreme leader must now resort to manipulating elections and using force against unarmed demonstrators to preserve the regime's hold on power. Regime authorities have detained independent-minded individuals, repressed organizations under the guise of protecting the regime against what it labels as internal enemies, saboteurs, even revolutionaries.

A process that has gone largely unnoticed outside of Iran is the rise of the Iranian Revolutionary Guard Corps or IRGC. The rule of the mullahs has been significantly replaced by the Iranian Revolutionary Guard Corps, a quasi-military organization which has become the predominant power in that country. The IRGC controls large swaths of the economy and society. It uses its police and military forces to ensure obedience. It even has a dominant role in Iran's nuclear weapons and ballistic missile capabilities.

And it is only in this context that we can fully understand what is now taking place in Iran following the sham elections of June 12. In addition to providing us their analysis of Iran's internal developments, I would appreciate it if our witnesses would address how these are affecting the regime's influence outside of the coun-

try and how we can capitalize on any political and economic vulnerabilities.

For decades, Iran has spread unrest around the world, directly and through its proxies, such as Hamas and Hezbollah. Tehran has also facilitated attacks on United States forces in Iraq and in Afghanistan. The regime continues to pursue long-range missiles and seeks to enhance its chemical and biological weapons capabilities.

The most salient issue is Iran's nuclear weapons program. Admiral Mike Mullen, the chairman of the Joint Chiefs of Staff, recently said, "The clock has continued to tick on Iran's development of nuclear capabilities, and our time to stop them is running out." Ahmadinejad has declared many times that negotiations regarding Iran's nuclear program are dead. He reiterated that position on May 25th of this year and again last month. It is time for our policy to be based on facts and not on hope.

It is long past time that we apply a badly needed sense of urgency to our policy toward the Iranian regime. It is time for us to fully realize that a regime that tortures, oppresses, and violently suppresses dissent, that only has disdain for its people, is not a regime that the U.S. should be legitimizing.

I look forward to receiving the testimony of our witnesses today, listening to your recommendations on what the United States can do to support the people of Iran while undermining the ability of the regime to threaten its people, the region, and global peace and security.

Thank you, as always, Mr. Chairman, for this hearing and the ability to ask great questions to our wonderful witnesses.

Thank you.

Chairman BERMAN. Thank you.

And I am very pleased to recognize the chairman of the Middle East and South Asia Subcommittee, the gentleman from New York, Mr. Ackerman.

Mr. ACKERMAN. Thank you.

Mr. Chairman, I don't think it is a secret that I have been a very active advocate of sanctions in Iran. For many years, I have thought it essential to force Iran to pay a price, some price, any price, for its regional subversion, its state sponsorship of terrorism and, most of all, its nuclear proliferation. In this last regard, however, I feel it may already be too late for sanctions.

In April of last year, I warned that our thinking about the Iranian nuclear problem needed to change. I suggested then that "Options that years ago would have seemed reckless have now become essential leverage if we are going to be successful in peacefully getting Iran to back down. With Iranian proliferation on the horizon, what is feckless is in fact reckless." That is what I said a year ago.

As have many others, I supported the administration's efforts to engage Iran. In my travels through the Middle East and here in Washington, I have asked Israelis and numerous Arab leaders if they supported the President's approach to engage Iran. Every single intelligence chief, Minister, King, Prince, President, head of state, responded exactly the same way; America's engagement is long overdue and absolutely essential. And then when I ask them if they thought it would work, to a man, they said, absolutely not. I don't think they are wrong either.

Recent events in Iran are instructive. But confronted by a challenge, Iran's rule is responded like any other pack of thugs with regime-sponsored violence and other disregard for human life. And it should be noted, the concerns and views of the rest of the world matter to them not in the slightest. In short, with their backs against the wall, Iran's rulers didn't care who or how many got hurt.

Unfortunately, these events don't bode well for the administration's effort; whether or not bilateral discussions are going on right now or not, I don't know. But either way, I, frankly, have little hope that Iran's rulers will give up their nuclear ambitions in any case.

What we have seen of late strongly suggests that Iran's rulers would gladly break the country in half in order to preserve their grip on power, and even given what has happened in Iraq and what has not happened in North Korea, I suspect Iran's thugocracy sees nuclear arms as their ultimate insurance policy.

All of this is to say that we need to start thinking again, not just about sanctions and not just about what constitutes so-called crippling sanctions, but whether there is any level of economic sanctions sufficient to compel a change in Iran's nuclear program. And as we consider this question vis-à-vis Iran, I would suggest we think seriously about the decade of truly comprehensive sanctions on Iraq, which ultimately failed to resolve concerns about weapons of mass destruction that didn't even exist. Does anyone think that the Ayatollah Khomeini is a nicer guy than Saddam Hussein?

This is reality; Iran is marching swiftly toward either a bomb or either a latent nuclear capability. This development is deeply destabilizing in an already deeply unstable region. Successful proliferation by Iran will most likely destroy the NPT and the international law against norm against nuclear proliferation. If left unaddressed by the United States and the rest of the international community, as seems to be the case right now, Israel will have to either live under Iranian nuclear sword or act preemptively themselves.

In April of last year, I concluded by saying, I am not calling for another war; I want to prevent one. But we may have to go right up to the brink to be considered serious and credible——

Chairman BERMAN. The time for the gentleman has expired.

Mr. ACKERMAN. To make nuclear weapons unacceptable.

Chairman BERMAN. The gentleman from Indiana, the ranking member of the Subcommittee on the Middle East and South Asia, Mr. Burton, is recognized for 3 minutes.

Mr. BURTON. Thank you.

Mr. Chairman, I have been one of your strong supporters of 2194, and I can't for the life of me figure out why we are waiting month after month to bring that bill to the floor. It has 260 cosponsors. Everybody understands the threat that Iran opposes, and we are sitting here talking.

They have been developing a nuclear weapons program, as I understand it from staff, for almost two decades. They haven't made any allusions about stopping or creating any illusions about stopping that nuclear program. They are not going to stop.

And unless we start imposing sanctions, real sanctions right now, like your bill would do, give the President the authority, we are giving him the authority to do it; let's do it. I mean, he has tried to reach out to them. He has said that he is willing to talk and all that other stuff. It ain't working, and it is not going to work.

They have, as you just said, 7,000 centrifuges right now. They are developing a nuclear capability. And I know B.B. Netanyahu. And I know that he is a man that doesn't want to have a conflict over there. But I don't believe he or the Government of Israel is going to sit back if they have intelligence information and wait for them to complete a nuclear weapons program or a delivery system.

We are messing around by waiting and not imposing sanctions today. Every day that we wait, we are risking a major conflict over there. Now, from the United States' standpoint, we are getting what 30, 35 percent of our energy from that part of the world right now. We don't need a conflagration that might involve nuclear weaponry. I mean, it would be horrible.

And so, you know, the people over there, obviously, the people over there are good people. They like America for the most part, the people over there. It is not the people; it is the government. And we need to start putting pressure on that government post haste, and we haven't been doing it.

If we start putting the hammer to them, if we give the President the authority and he starts getting our allies to stop them from getting refined oil back in their country, that will put extreme pressure on that government, because the people over there are already upset because of these elections. And there is a very good chance that the people of Iran would make some move to overthrow that government and bring in a real democratic government that they could live with.

But for us to keep—I mean, I don't know how many hearings I have been to. I have been on this committee now for 27 years. I don't know how many hearings I have been to where we were talking about how we can work with Iran or how we want to work with Iran; we want to open up a dialogue. It isn't going to work. The one thing about North Korea, you know they are going to lie. Iran doesn't have to lie. They keep telling us they are not going to pay any attention to us, and they go right ahead. We need to impose sanctions now, not later.

Chairman BERMAN. The time of the gentleman has expired.

We have an excellent group of witnesses, some focused on the economic issues and some focused on the political issues in terms of the issues raised up until now and in Iran.

I am going to introduce them in the order that they will be asked to testify.

First is a familiar face to this committee, Patrick Clawson, deputy director of research at the Washington Institute for Near East Policy. He previously spent 5 years at the National Defense University's Institute for National Strategic Studies, and 4 years at the IMF, the World Bank and the Foreign Policy Research Institute. He is the author or editor of over 25 books, including, "The Last Resort: Consequences of Preventive Military Action against Iran,"

published in 2008. And he has interesting ideas about how to take credit for the sun rising in the east.

Abbas Milani is the co-director of the Iran Democracy Project at the Hoover Institution. He is also the Hamid and Christina Moghadam director of Iranian studies at the Stanford University. He has previously taught at the University of California at Berkley.

Michael Rubin is resident scholar at the American Enterprise Institute and a senior lecturer at the Naval Post-Graduate School's Center for Civil Relations. He previously served as the editor of Middle East Quarterly and is a staff advisor on Iran and Iraq at the U.S. Department of Defense. He is the author of numerous books, including the forthcoming, "Talking to the Enemy: The Promise and Perils of Engagement."

Suzanne Maloney is a senior fellow at the Saban Center for Middle East Policy at the Brookings Institution. She previously served on the State Department Policy Planning Staff, and as director of the 2004 Council on Foreign Relations Task Force on U.S. Policy toward Iran. She has published widely on Iran and her forthcoming book from Cambridge University Press will analyze Iran's political economy.

Karim Sadjadpour is an associate at the Carnegie Endowment for International Peace. He was previously the chief Iran analyst at the International Crisis Group. He is a frequent media contributor for organizations such as the BBC, CNN, and the New York Times. He has lectured at Harvard, Princeton and Stanford Universities.

Orde Kittrie is a professor of law at Arizona State University and a visiting scholar at the John Hopkins School of Advanced International Studies. He is also a senior fellow at the Foundation for the Defense of Democracies, where he co-directs the Iran Energy Project. He previously served 11 years in the State Department where he worked on trade and nuclear issues.

This is our excellent panel.

And Patrick, why don't you start it off?

STATEMENT OF PATRICK CLAWSON, PH.D., DEPUTY DIRECTOR FOR RESEARCH, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. CLAWSON. Mr. Chairman, honorable members, thank you for the privilege of permitting me to testify today. I have prepared a statement that I would like to submit for the record.

Chairman BERMAN. All statements will be included in the record.

Mr. CLAWSON. Thank you, Mr. Chairman.

Let me put on my economist hat to address the state of Iran's economy and its vulnerability to foreign economic pressure.

First a word about Iran's overall economic situation. There is no country in the Middle East that has suffered more from the oil curse than Iran. Iran had spectacular economic growth when its oil income was modest. Indeed that oil revenue fueled the growth.

But after the 1973 oil price rises, Iran became addicted to oil while the rest of the economy suffered. That was true under the Shah and has gotten worse under the Islamic Republic.

For years, the different political factions in Iran have all agreed that the economy was in bad shape and that drastic steps were needed, but no one has been willing to tackle the entrenched interests, and so, therefore, the country's economy has suffered.

The problem with the oil curse has been on full display in the last decade. Since 2000, oil prices have been on the rise. From 2000 to 2003, the average price was 50 percent higher than it had been in the 1990s. And from 2004 to 2008, things got even better for Tehran; each year the oil price rose 30 percent.

With this windfall, Iran's economy has grown at 6 percent a year on average, which is faster than that of the United States or other industrial countries. However, it is a lot slower than the double-digit growth which should have been possible with this windfall. And Iranians have been profoundly unhappy about their country's economic performance because they realize what a missed opportunity the last few years have been.

The oil windfall has been misused by President Ahmadinejad. He has taken that money and used it to engage in populous policies designed to secure short-term popularity at the expense of long-term growth. The budget for grants and subsidies went from $11 billion when Ahmadinejad took office to $25 billion this year. An equivalent increase in the United States would be if we spent an extra $550 billion a year on grants and subsidies. And that is just the explicit subsidies in the budget.

There is also an implicit subsidy which comes from pricing oil and natural gas well below world market rates. The former central bank governor of Iran estimates those implicit subsidies at $45 billion a year; while the IMF estimates them at $85 billion a year. Even at the lower figure, the equivalent for the United States would be a $2.1 trillion subsidy.

While this oil windfall has been largely wasted, it has had a substantial foreign policy impact. The additional oil income swamped the impact of increased foreign economic pressure. Iran could easily afford the higher price on its imports that came because of our sanctions operations. After all, Iran's imports tripled in the last 5 years. Given such a spectacular increase in the availability of foreign goods, it was hard to make the case that foreign sanctions were holding back growth.

In short, the last few years have been a particularly difficult time for foreign economic pressure to have much impact on Iran.

But the prospect for the next few years is entirely different. Oil revenues are declining instead of rising, and that is going to pose serious problems for Iran funding its imports and paying for its government budget. If oil prices stay at their current level, Iran's export earnings will be down $20 billion from last year.

Now, at first, Iran could use its ample foreign exchange reserves to make up for the shortfall, but those reserves are going to run out, certainly within 3 years, and if oil prices fall, they will run out even faster.

Then there is the government budget problem. The government spending has been increasing at a brisk pace under Ahmadinejad. At present oil prices, Iran will run a considerable budget deficit. And furthermore, Iran is not in a position to finance that deficit by borrowing from domestic banks because Ahmadinejad has ordered

the banks to lend money for politically-favored but uneconomical projects. So the banks are in poor shape.

In sum, the current situation in which Iran's economy is likely to do poorly in the next few years is a perfect moment for the international community to impose additional sanctions on Iran. No longer can Iran afford to offset the impact of those sanctions with a flood of higher oil income. On the contrary, the sanctions will come at a time of looming economic hardship, and there is excellent reason to expect that Iranian public opinion will blame the economic problems on the hardliners' isolation of Iran from the international community. In other words, we are in the position of being able to take credit for that which is going to happen anyway. And in politics, if you can get credit for making the sun rise in the East, take it.

Foreign pressure will not cause Iran's economy to collapse, nor should that be our goal. But such pressure may well be able to contribute to what is becoming an intense debate inside Iran about the wisdom of a confrontational and isolationist policy toward the international community. That debate offers the best prospect for a fruitful resolution of a nuclear impasse, because those who want Iran to join the world are not willing to pay a high price for a nuclear program which they increasingly see as part of the Ahmadinejad agenda, not as part of a national project.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Clawson follows:]

IRAN'S VULNERABILITY TO FOREIGN ECONOMIC PRESSURE

Testimony by **Patrick Clawson**

Deputy Director for Research, The Washington Institute for Near East Policy
July 22, 2009 Hearing of the House Committee on Foreign Affairs

For several years, Iran's economy was cushioned from foreign pressure by the high price of oil. That has changed as oil prices have declined and Tehran's poor policies have exacerbated serious structural weaknesses. The most likely prospect is that during the next few years, Iran's economy will face serious problems. Foreign economic pressure could add to those problems. Furthermore, Iranian public opinion is likely to exaggerate the impact of the foreign pressure and to blame the Ahmadinejad government's hardline stance for the country's economic difficulties. Let me expand on these points, after making a few remarks about Iran's structural economic problems.

Background on Iran's Structural Economic Problems

No country in the Middle East has suffered more from the "oil curse" than Iran. Iran had spectacular economic growth while its oil income was modest; indeed, the oil revenue fueled that growth. But after the 1973 oil price rises, Iran became addicted to oil while the rest of the economy suffered. Through the many political changes Iran has experienced since 1973–Islamic revolution, eight-year war, reform/hard-line confrontation–one constant has been over-reliance on oil income. Had oil income been more limited, Iran would have long ago been forced to undertake far-reaching structural reforms, much as the Shah was forced to do in the early 1960s; as then, the result would have been rapid growth. Instead, policymakers have either ignored the economy or let their ideologies prevail over common sense, convinced that in the end, high oil income would sustain the country.

The Shah used the windfall oil income after 1973 to force-step growth at an unachievable pace. The economy stalled and social problems mounted, setting the scene for the 1979 Islamic Revolution. The Islamic Republic's leaders cared little about the economy and were suspicious of capitalist markets, plus they were preoccupied by the war with Iraq. Adding to Iran's problems, the world oil industry went into deep decline, and Iran suffered as much as any OPEC producer. As the world oil industry recovered in the 1990s and as Iran emerged from the 1981-88 war with Iraq, Ali Akbar Hashemi Rafsanjani became president. The first Iranian revolutionary leader to put priority on economic development, he forced through the Majlis (the legislature) a plan to downsize state control. Under the limited reforms he introduced, the economy recovered nicely, with gross domestic product rising 8 percent per annum in real terms during 1988/89–1992/93. Iran increased its oil production from 2.6 million barrels per day in 1988/89 to 3.9 million in 1992/93. That should have provided the means to fuel the growth the government wanted to promote. But the oil curse hit again. For all of Rafsanjani's hopes, at the end of the day, reforms did not progress very far. The entrenched revolutionary interests fought back to protect their sinecures, and Rafsanjani was unwilling to risk a confrontation. The hopes of continued reliance on oil income provided the excuse to avoid making difficult choices.

In the mid-1990s, the economy was hit hard by the combination of stalled reforms and the exaggerated boom since the war's end. In 1993 when the oil market weakened, Iran was no longer able to service the substantial foreign debt it had run up. In this atmosphere of mounting economic problems came the U.S. economic sanctions, first imposed in a vigorous manner by the Clinton administration. Iran's economy would have faced serious problems without the U.S. sanctions, but the U.S. pressure was perfectly timed to add to the Islamic Republic's burden. The Rafsanjani government had little choice but to throttle back on imports so that Iran's oil income could be used to repay its foreign debt. The debt crisis, which lasted five years, brought an end to the postwar boom. The popular mood was sour, and the blame was put firmly on hard-line policies, especially the isolation from the United States.

The deep discontent that led to the surprising 1997 election of reformist Mohammed Khatami led to little change in economic policy. Furthermore, Khatami had no clear economic ideas, unlike his well-formed and articulated-stated views on political and social reform. The different political factions all agreed the economy was in bad shape and that drastic steps were needed–indeed, this has been a favorite theme of Supreme Leader Ali Khamenei, who has argued the government's priority should be fixing the economy rather than making political reforms. But no one was willing to tackle the entrenched interests, be it the subsidies for consumer goods that drained the public coffers or the rampant corruption that enriched the politically well-connected but scared away foreign investors and embittered ordinary Iranians.

High Oil Prices Cushioned Iran from Foreign Economic Pressure

In the 1990s, oil prices were quite moderate; the price of benchmark Dubai oil averaged $17 per barrel from 1991 to 1999. With the new millennium, the price rose by half, averaging $25 per barrel from 2000 to 2003. That price rice gave the Iranian economy a boost, fueling modest growth.

In the last five year, things got even better for Tehran. Oil prices rose 30 percent a year on average. Dubai oil went to $34 per barrel in 2004, $49 in 2005, $61 in 2006, $68 in 2007, and $94 in 2008 – ending up more than 3 ½ times where it had been in 2003. The Islamic Republic's oil and gas exports in its fiscal year 2007/08 were higher than the combined total for all four years of the first Khatami term (1997/98-2000/01). Preliminary figures suggest that they stayed at almost the same level in 2008/09.

With this windfall, Iran's economy has grown at 6 percent a year on average, faster than that of the United States or the other industrial countries. Consumption has grown handily at 7 percent per year. Unemployment has fallen.

The additional oil income since 2004 swamped the impact of increased foreign economic pressure. Iran could readily afford the higher price that such pressure imposed on its imports. Iran's spending on imports tripled from 2003/04 to 2008/09, rising from $28 billion to $85 billion. Given such a spectacular increase in availability of foreign goods, it was hard to make the case that foreign sanctions were holding back growth. And the sanctions-induced higher cost of doing business did not necessarily look like such a burden when business was growing so briskly. In short, the last few years have been a particularly difficult time for foreign economic pressure to have much impact on Iran.

But Poor Policies Wasted the Opportunity

The oil windfall has allowed President Mahmoud Ahmadinejad (who came to power in 2005) to

engage in populist policies designed to secure short-term popularity at the expense of exacerbating fundamental economic problems. In particular, his government has spent huge amounts on subsidies, on grants, and on social benefits, which for many people – especially the lower social classes – have offset much of the pain from unemployment and inflation. These subsidies, grants, and social benefits had a budgetary cost of 98 trillion rials (about $11 billion) in 2005/06, which then mushroomed to 252 trillion rials (about $25 billion) in 2008/09, according to the IMF. That is an increase of $14 billion in three years. That increase is equal to about 4 percent of GDP; an equivalent increase in the United States would be $550 billion. In 2008/09, the subsidies, grants, and social benefits made up 28 percent of all government spending.

This extra $14 billion for subsidizing consumption vastly exceeded the modest $4 billion in government investment during the same period (government capital expenditures went from 118 billion rials, or about $13 billion, in 2005/06, to 170 billion rials, or about $17 billion, in 2008/09). While the policy of using the oil windfall to boost consumption may give a temporary boost to the government's popularity, the country's economic development would have benefitted much more if the windfall had been used to fund investment.

Under Iranian law, oil windfalls are supposed to be set aside in the Oil Stabilization Fund, which meant to accumulate a reserve when prices are high, as at present, for use when prices drop. Statutory provisions dictate that it is to receive the excess between the budget's estimated oil income (traditionally set conservatively) and actual revenue. However, the fund's balance has actually decreased since March 2006, when the fund should have received tens of billions of dollars. The Ahmadinejad government has repeatedly raided the Oil Stabilization Fund. The money was used partly to fund government spending but mostly for politically motivated loans that offer poor prospects of being repaid. Annoyed at the few constraints he faced in such raids, Ahmadinejad simply dissolved the board charged with administering the fund. Information about the fund balances since then has been hard to obtain.

In addition to the explicit subsidies in the budget and the wasted loans from the Oil Stabilization Fund, another huge drain on government resources came from the "implicit subsidy" which comes from pricing oil and natural gas well below world market rates. Continuing energy subsidies cost Iran $45 billion a year, according to former Central Bank governor Mohammed Hossein Adeli. The IMF's estimates are higher; it places the cost of the energy subsidies at more like $85 billion a year. Even at the lower figure, the energy subsidies are the equivalent of 15 percent of GDP. The equivalent for the United States would be a $2.1 trillion a year subsidy. Not only are the subsidies an impressive waste of resources, but they add to environmental problems. Due to excessive use of gasoline, the air pollution in Tehran is so bad that it kills more than 5,000 people a year–a number which is growing alarmingly.

Ahmadinejad has implemented some economic reforms but only halfheartedly. Consider the long-debated move to ration gasoline supplies, a policy recommended by Iranian economists and their World Bank colleagues because of the lack of political will to raise gasoline prices to their actual cost. Rationing began in June 2007 but has been steadily undermined by periodic announcements of extra rations for populist reasons, such as summer and New Year's vacations. In addition to the monthly 25-gallon ration at $.43 per gallon, motorists can purchase extra amounts at $1.65 per gallon. While these measures may have slowed the growth of gasoline consumption, the total amount of gasoline sold in Iran has risen steadily despite the rationing—hardly surprising given that the Islamic Republic is proudly pushing automobile production.

Iran Faces Poor Economic Prospects

Let us not exaggerate Iran's economic problems; its economy has grown faster than that of the United States each year for more than a decade. But that is little comfort to the Iranian people, who are profoundly unhappy at the missed opportunity for much faster growth. Their standard of reference is the spectacular economic boom on the south side of the Persian Gulf. Iranians are well aware of how Dubai has gone from being a backwater to a world-class city, even though its oil output is limited. From the gas field they share in the waters of the Persian Gulf – the world's largest field--Qatar produces twice as much gas as does Iran. Iran had the potential to have double-digit growth rates over the last decade, but instead it has modest growth. Iranians think of themselves as a great civilization, and it is galling to them to see their country miss the opportunity to achieve the prosperity which they think should be their natural state.

Official statistics show the country's deep problems, especially inflation and unemployment. Inflation in 2008/09 as reported by the Central Bank was about 20 percent; it peaked mid-year at nearly 30 percent but has since "moderated" to15 percent – a level which Iranians still find intolerable. In mid-2008, Iran's Statistics Center estimated unemployment at 11.9 percent with the rate for those aged 15 to 24 reaching 25.6 percent. And these official statistics may understate the problem. Under the Ahmadinejad government, economic data have become increasingly untrustworthy. For instance, in 2009, the Iranian government acknowledged that it changed its definition of who counts as employed to include anyone working two or more hours a week. Evidently this change accounted for much of 2009's reported modest reduction in unemployment. And there may be even more blatant manipulation of data. Ahmadinejad's first minister of industry and mining, Eshaq Jahangari, reported that Ahmadinejad once ordered him to falsely double the reported economic growth rate.

Emblematic of the Islamic Republic's deep-seated economic problems is its inability to guarantee its citizens a secure energy supply, despite massive expenditures. Electricity outages have become everyday occurrences in Iranian cities, especially during the hot summers. Natural gas consumption, on which most Iranians depend for heating and cooking, continues to be highly subsidized with the result that consumption is booming, forcing Iran to import more gas than it exports even though Iran has the world's second largest reserves. The government has difficulty paying for imports. When in 2008 Turkmenistan cut off supplies in the midst of one of the coldest spells of weather Iran had experienced in decades in order to pressure Tehran to pay higher prices, the Iranian government had to shut off gas supplies to at least 1.4 million people.

If the story of the last few years was that Iran's economic situation has not lived up to popular expectations, the prospect for the next few years is that the authorities will face serious problems avoiding catastrophe unless oil prices are well above current levels. Until the financial crisis hit in October 2008, oil prices had been rising 30 percent a year for four years. Even if the world economy continues to recover, oil prices are very unlikely to continue that steep rate of increase. Indeed, oil prices are likely to be well below the 2008 level of $94 for Dubai's high-quality oil (Note that Iran's less desirable oil sells at a considerable discount to the Dubai price). Perhaps oil prices this year will average $70, the price at which oil has recently been trading. If so, that is 25 percent below the 2008 price.

With oil revenue declining instead of rising, Iran will face serious problems funding its imports and its government budget. These are two distinct but interrelated problems. To start with the import problem. Iran's imports have been growing rapidly, from $43 billion in 2005/06

to $67 billion in 2008/09. That is an average of 16 percent growth a year. In its August 2008 report on Iran's economy, the IMF forecast that imports would continue to grow a brisk pace, by more than $8 billion each year. Indeed, the IMF predicted that even if oil prices remained at their 2008 level, Iran's imports of goods and services would exceed its exports by 2011/12 (that is, Iran would run a deficit on the balance of payments current account).

But if oil prices are down 25 percent from the lofty 2008 level, Iran runs into problems more quickly. A 25 percent drop translates into $20 billion less export earnings each year. At first, Iran could use its ample foreign exchange reserves to make up for the shortfall. But if spending plans continue on the path forecast by the IMF, then oil prices at their current level would mean that Iran's reserves would be at a dangerously low level within three years. That may understate the problem, because if Iran starts running down its reserves, businessmen may lose confidence and so start transferring their money abroad one way or another.

Note that if oil prices were to stabilize at half their 2008 level – that is, with Dubai marker crude at $47 per barrel – then Iran's oil export earnings would be $40 billion a year less than at the high price level. At that price level, Iran's foreign exchange reserves would be dangerously low within 18 months.

Financing imports are one problem caused by lower oil prices; financing the government budget is the other problem. Government spending has been increasing at a brisk pace under Ahmadinejad. The IMF forecast was that even with oil prices steady at their 2008 level, the government budget would slip into a deficit by 2010/11. If oil prices are at their current level, then the budget will run a significant deficit already this year. And the problem appears to have been made worse by substantial increases in government spending. Already by October 2008, the IMF had revised its August forecast, saying that Iran needed a $90 price in marker crude to balance its budget. The pattern of increasing spending seems to have accelerated since then. the runup to the June presidential election saw large increases in pensions and government salaries, as well as grants handed out to the poor.

In theory, a government budget deficit could be financed by borrowing from the local banks, or more precisely by reducing the substantial deposits the government has with the banking system. But that may be hard to do in practice, because the Ahmadinejad government has ordered the banks to lend huge amounts for politically favored but uneconomical projects. The banks are in precarious shape, and they may have grave difficulties were the government to reduce the substantial support it provides banks at present.

Faced with changed circumstances in world oil markets, a wise government would begin to adjust immediately, using its reserves as a cushion for a "soft landing." This would imply reducing government spending, raising interest rates, and allowing the exchange rate to depreciate. All of these are measures which Ahmadinejad has vigorously refused, despite insistent urging by the technocrats in his own government and by Iran's economists. The most likely prospect is that he will continue to resist until reality faces Iran with a "hard landing." That is, Iran is likely to retain its current policy stance until reserves are exhausted. That is what Iran did when faced with impeding economic disaster in the early 1980s and again in the early 1990s. On both those occasions, the government resisted change until the last minute and then had to make dramatic and painful adjustments. That could include freezing government salaries while inflation rages at double-digit rates. It could also include administrative measures, such as restrictions on access to foreign exchange, to sharply restrict imports.

Taking Credit for Making the Sun Rise in the East

If Iran is forced to make the kind of dramatic retrenchment it did after the 1993 debt crisis, the popular mood will be even more sour than at present. Furthermore, there is every reason to expect public opinion to lay the blame for the economic problems on the Ahamdinejad government. Already, reform politicians blame that government for isolating Iran from the world. If Iran is forced to reduce imports substantially, the most likely popular reaction will be to blame hardliners for the problems. That was certainly the pattern after the 1993 debt crisis, when the retrenchment measures were widely blamed on hardliners who had made relations with the United States so bad.

Indeed, the experience of the 1990s suggests that Iranians will attribute more power to international economic sanctions than is merited. Most of Iran's economic problems during that decade were due to the government's poor policies, exacerbated by the stagnation in the world oil markets. But Iranians were in no mood to accept such a mundane explanation for their country's economic problems. Much more appealing for popular sentiment was to blame the economic restrictions on the same hardliners whose social and political restrictions were so resented.

As an economist, I would say Iran's economic problems now and in the future have more to do with poor government policies than with international pressure. But if asked what advice I would give the U.S. government, I would say: grab credit for Iran's economic problems even if that credit is not due. Washington should be delighted if Iranian public opinion thinks that foreign economic pressure is all-powerful. It is a good political principle to figure out what is about to happen and then to announce policies which one claims are responsible for what is in fact inevitable. Why not take credit for making the sun rise in the east, if one can get it?

In some, the current situation, in which Iran's economy is likely to do poorly in the next few years, is a perfect moment for the international community to impose additional sanctions on Iran. No longer can Iran offset the impact of those sanctions with a flood of higher oil income. On the contrary, the sanctions will come at a time of looming economic hardship, and there is excellent reason to expect that Iranian public opinion will blame the economic problems on hardliners' isolation of Iran from the international community.

Foreign pressure cannot cause Iran's economy to collapse, nor should that be our goal. But such pressure may well be able to contribute to what is becoming an intense debate inside Iran about the wisdom of a confrontational and isolationist policy towards the international community. That debate offers the best prospect for a fruitful resolution of the nuclear impasse, because those who want Iran to join the world are not willing to pay a high price for a nuclear program which they increasingly see as part of the Ahmadinejad agenda, not part of a national project.

Chairman BERMAN. Thank you very much, Dr. Clawson.

And now, Dr. Milani.

STATEMENT OF ABBAS MILANI, PH.D., CO-DIRECTOR, IRAN DEMOCRACY PROJECT, HOOVER INSTITUTION, DIRECTOR, IRANIAN STUDIES, STANFORD UNIVERSITY

Mr. MILANI. Good morning, Mr. Chairman.

Thank you to the ranking member and the rest of the committee.

Let me begin by saying that the last time I talked to this committee, Congressman Lantos held the gavel, and he embodied for me in his life and vision the best of America as the City on the Hill. I am humbled by his memory and would like to remind us of his service.

I, too, have prepared a statement that I would like to submit to you, but I will try to make my presentation as much a direct answer to some of your questions as a summary of the statement, if I may.

I think Iran is in a purgatory today. I think it is in a state of flux unlike anything that it has experienced in its 30 years. I can say with some certainty that I think it is the most serious crisis this regime has faced, the most serious political crisis this regime has faced.

The problem is that neither of the two sides that are now facing off seem to have the power to dislodge the other or control the other.

We are in what political scientists call a condition ripe for the rise of a kind of a Napoleon. That Napoleon might have already risen. The Revolutionary Guards, as you have indicated, have now become a virtual state within the state and run much of the economy, all of the military literally. They have their own intelligence agencies. They have their own prison. They have their own points of entry. They bring in counterfeit commodities that are estimated to gain them $15 billion, $16 billion a year alone on that account.

So they, along with Khamenei and Ahmadinejad, this triumvirate I think organized already a coup in Iran. I think Iran, for all practical purposes, can no longer be called a republic, but Islamic government, an Islamic government run by this triumvirate.

I think the days of Mr. Khamenei as Velayat-e Fagih. Velayat-e Fagih is a theological concept that indicates that the words of one man are the words of the divine and must end all debate, must end all tension within the regime. And up to now, Khamenei's words were in fact allegedly divine. They did in fact end all crises, but now, for 20 days, he has gone out of his way to try to make this election stick, and he has not succeeded.

Last Friday's prayer by Rafsanjani was a direct challenge to Mr. Khamenei, was a direct challenge to everything he has said since the election. So what will happen in the next few weeks will tell us who will actually rule Iran in the next few years.

I am not at all convinced that the triumvirate's coup attempt has succeeded. They have the upper hand because they have the military, because they have the goons, because they have the ability to pay this machinery of oppression. But look at the tape of Ahmadinejad's last visit to the city of Mashhad. Look at the few number of people who they succeeded to bring in the city of

Mashhad, that was supposed to be one the strongholds, and compare that to the number of people, the millions, who came out for Rafsanjani.

So I think part of the problem for the Obama administration is that this situation is in a flux, and we still do not know who shall emerge victorious in this battle.

There are three major contradictions in Iran today. I think we need to be aware of them. The most important one is between the people and the regime. The people have shown now clearly, categorically, that they do not want this regime. Millions came into the streets, took life and limb in hand, and declared death to their dictator. There is no clear alternative of where they want to take the regime except that they want it to be more democratic.

And their contradiction with this regime is fundamental and structural. This regime cannot solve the problem of the Iranian society. It cannot solve it because 1 million people join the labor force every year. Unemployment is double digits. For the youth, that is three-fifths of the society, unemployment is estimated to be between 25–40 percent. A disproportionate number of the educated entering the labor force are college-educated women.

Another problem with the regime also related to women. Women have been relentless in fighting this regime and fighting the misogynist laws that occasionally exist in Islam against women. Women have not given up an inch, and they have continued to fight. And many of the social networks that they have created were in fact the networks that were used by the demonstrators after June 12th.

The economy is a major problem for the regime. As Professor Clawson has suggested Ahmadinejad had his hand on $200 billion. Much of it is unaccounted for; $36 billion of it is simply unaccounted for. Where the rest has gone is very little clarity about this. We know he has spread some of it in the smaller cities and the countryside building roads, but that comes nowhere close to the total amount that he has squandered.

We know he has given away $5 billion last year alone to regime proxies around the world. This is the figure that was suggested inside Iran from reliable sources with figures. How much to Syria? How much to Hezbollah? How much to Hamas? How much to Latin America? As we speak, Israel's Foreign Minister is traveling to Latin America to counter Iran's influence, not in the Middle East but in Latin America. All of this was possible because of the oil windfall, because of the oil curse. I think the tide is now beginning to turn for the regime. And I think the people, because of this contradiction, are irreconcilably opposed to the status quo.

The second contradiction, and again in its depth and severity unlike anything the regime has ever experienced, is between elements of the regime itself. Karubi, Rafsanjani, Moussavi, Khatami, name only the four. These have been the head of one of the three branches of Iranian Government for a total of 34 years, longer than the regime has existed. Now they are in clear opposition to with Khamenei. Now they are part of the coalition for reform. They are not all of the same opinion, but they are all of the opinion that Khamenei has overreached, and that the election must go. That is an incredible moment of crisis.

There is a third——

Chairman BERMAN. Dr. Milani, this is fascinating, but I think, if you could just bring it to a conclusion, there will be ample time for more hearing of your thoughts during the question-and-answer period.

Mr. MILANI. Okay, in terms of——

Chairman BERMAN. Just finish it up.

Mr. MILANI. I think on the question of engagement, my suggestion is that there must be engagement, but we must be very careful when this engagement begins. We must wait for the dust to settle in Iran to realize who wins this. Before we engage with someone, we need to know who that someone is. But engagement, I think there is, as you suggest, no other alternative but engagement as the first next step.

[The prepared statement of Mr. Milani follows:]

Foreign Relations Committee/Milani/1

Testimony before Committee on Foreign Affairs
US House of Representatives
Hearings on: "Iran: Recent Developments and Implications for US Policy"
Chairman: Hon. Howard Berman
July 22, 2009

Abbas Milani[1]

Mr. Chairman, Ladies and Gentlemen: Let me begin by thanking the Chairman and the Ranking member of the Minority for affording me a chance to speak to your august gathering. The last time I talked here, Congressman Lantos held the gavel and he embodied in his life and vision the best of America as the "city on the hill." I am humbled by his memory.

These are times of great peril and promise in Iran, and in that benighted country's tumultuous relations with the US. Iran is in a purgatory, and in a state of flux but neither of two forces—those advocating reform and those defending the status quo ante—has the power to prevail over the other, at least not yet.

The Islamic regime is shaken to its core. The clerical leadership is in unprecedented disarray and disunity. Some of the most powerful pillars of power in the regime—people like Hashemi-Rafsanjani, Khatami, Karubi and Moussavi, each at one time the head of one of the three branches of government—have created a de facto coalition against the increasingly authoritarian rule of Mr. Khameni and against the dangerous demagogueries of his hand-picked President, Ahmadinejad. It is now emerging as something of a consensus in the opposition that on June 12 this triumvirate organized an electoral coup to keep Ahmadinejad in power.

The Islamic regime in Iran today is an anomaly. It claims to be a Velayat-e Fagih, or the Guardianship of Jurist, but the great bulk of Shiite clergy's highest ranks, or the Ayatollahs have no role in the government. Many of them—foremost amongst them Ayatollah Sistani even disagree with the very concept as stipulated by Ayatollah Khomeini. (In July 15, 2009 edition of *The New Republic*, I have written at greater length about these tensions within Shiite theology. See "The New Democrats: An Intellectual History of the Green Wave.") These ayatollahs have either been silent on the current crisis or taken issue with Mr. Khamenei. Moreover, many of the top ayatollahs inside Iran, like Ayatollah Montazeri (under house-arrest for more than two decades), and ayatollahs Taheri, Sanei, and Amoli have now not only defied Mr. Khamenei but are challenging his very fitness for the job of Leader (or Vali-Fagih.) For this reason alone, we can say that the days of Mr. Khamenei as the absolute leader, whose words were the law the land, have now certainly ended. He might stay in power, but only as a head of a triumvirate that also includes Ahmadinejad, and commanders of the IRGC.

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[1] Abbas Milani is the Hamid and Christina Moghadam Director of Iranian Studies at Stanford University where he is Co-Director of the Iran Democracy Project at the Hoover Institution

The rift within the ruling elite is not the only sign of this current crisis. Even according to the regime's announced results in the last stolen presidential election, some fourteen million people voted for the opposition candidate. The reality is far grimmer for the regime. No more than twenty percent of the seventy million population of Iran—and the majority of these are in one form or another wards of the state—can be said to support the status quo. The inability of the regime to create jobs for the million young men and women who enter the job market each year, its inability to solve the chronic economic problems of double-digit inflation and double-digit unemployment (with unemployment amongst the youth, particularly women reaching thirty percent), the structural impasse between some of Islam's misogynist laws and the relentless efforts of the Iranian women, the true harbingers of democracy in Iran in the last two decades, a pandemic of corruption and cronyism in the bureaucracy, the regime's incessant interference in the private lives and public demeanor of its citizens and the people's clear desire for democracy and accountability have all combined to create an insurmountable tension between the people and the regime. One of the most powerful men in the country, Hashemi-Rafsanjani called it a "seething volcano of resentment."

The egregious power grab by Khamenei and his cohorts, and the valor and human dignity of millions of peaceful demonstrators in Tehran and other big cities have also changed the dynamics of Iranian Diaspora politics. In spite of years of brutality by the regime, the large Iranian Diaspora had been, till recently surprisingly inactive. Now all across this country and in Europe, groups of concerned Iranians have formed to help the cause of democracy in Iran. As we speak here today, hundreds of Iranians, supported by an impressively large number of prominent American intellectual and scholars have heeded Akbar Ganji's call and are participating in a three-day hunger strike in front of the UN building in New York. On the twenty-fifth of this month, all across the world, there will be demonstrations of solidarity with Iranian democratic movement. These activities will help create a constructive dialogue in the American and European polities about realities in Iran, and the dialogue and the new level of awareness are sure to lead to the development a more informed policy in the capitals of these democracies.

But the most poignant reminder of the tensions inside Iran that have created the current impasse was Rafsanjani's anticipated speech during the Friday sermon. The fact that in spite of Ahmadinejad's incessant attacks on him and his family, Rafsanjani could still deliver the Friday sermon--an honor bestowed theologically only on the most venerated holy man in a city—is a clear indication of his clout within the clerical establishment. While Mr. Khamenei and his despotic cohorts have praised the election as "blessed" and divine, the "freest in the world," and the "death-knell of liberal democracy in the world," Rafsanjani declared it incurably flawed, and the source of a "crisis of confidence" in the nation. It is, he said, un-Islamic to "ignore people's votes," bluntly accusing the regime of stealing the election. He demanded the release of all political prisoners, saying they must be allowed to offer their services to the nation. Further evidence of the depth of the rift came a few days later, when Mr. Khatami, often criticized for his excessive caution called for a referendum to gauge the legitimacy of the current administration. In nearly every one of these declarations, these senior clerics have been taking aim at Khamenei,

once again reaffirming that his days as the infallible spiritual leader have mercifully ended. But his days in power and his ability to fight back have not yet ended.

On Monday, July 20, he fired back. His announcement was soon followed by his mouthpiece, the aggressively despotic daily paper called Kayhan. In reality on both occasions, Rafsanjani and Khatami and the rest of the opposition were threatened with a "storm" that will sink them both. Commanders of the IRGC have been busy making dangerous threats of their own but the opposition shows no sign of backing down. The fact that Mr. Karubi's paper, Etemad Melli continues to be published, in spite of its open criticism of the election, and in spite of the fact that its talented editor, Mr. Gouchani continues to languish in jail, all show the complexity of the scene in Iran, and the extent of opposition's clout in the corridors of power. Mr. Khamenei controls the military and the police but the opposition enjoys the support of a majority of the society and important parts of clerical power. Nearly all of Iran's anemic private sector has also been squarely in the camp of the opposition. And thus the current purgatory.

With massive support for the opposition in the streets, and powerful presence in the ranks of the clergy, it is tempting to under-estimate the power of the despotic forces. We must remember that they still control and operate a highly sophisticated, well-trained, well-paid apparatus of oppression. Hitherto, the only structure of the regime that has remained ostensibly intact and immune to cracks has been the IRGC and the ranks of the Basij—the gangs-cum-militia that control every neighborhood and institution and whose military arms are the equivalents of the Brown-Shirts and used to attack demonstrators in recent weeks. Moreover, a few dedicated millions of people whose lives depends on the subsidies and remuneration they receive from the state also support these forces.

These forces of despotism enjoy some international support as well. Many greedy European companies like Siemens-Nokia, and even more crucially countries like China and Russia, both eager to find stronger foot-holds in Iran, both eager to confront and curtail the power of the US in the region, and finally India with its increasingly important role in many facets of Iran's economy, have helped the regime fortify its oppressive apparatus at home. The same forces were responsible for delaying and deluding UN resolutions about the regime's nuclear program. The fact that in the last Friday's sermon, instead of orchestrated shouts of death to America there were spontaneous shouts of Death to Russia, and Death to China shows the extent of public resentment against regime's international allies. A new member of this unholy alliance of authoritarian regimes is Venezuela. There are reports of ever-increasing ties of "friendship" and "anti-Imperialist" struggle between the Iranian despots and their Venezuelan counterpart.

Today, the ebb and flow of politics inside Iran and Ahmadinejad's desperate search for countries that would recognize him as the new elected president have only further confounded the new American administration's effort to engage Iran. The fact that the regime has aggressively pursued a nuclear policy that seems unmistakably bent on developing at least the technological capability of making and delivering a nuclear bomb further confounds this much-needed effort.

In recent years, there have been two tendencies, both in my view, flawed, that have dominated much of the debate about Iran in Washington. Regime apologists, sometimes appearing in the guise of scholars and experts, as well as a few companies eager to do business in Iran, have claimed the regime invulnerable and resolute, and the democratic forces at best dormant and bereft of resolve. Based on these convenient "facts" these apologists offered what they claimed was realism in US policy. The business of American policy is business, they said, and as the regime is here to stay, the US must make a "grand bargain" with it expeditiously. Forfeit any attempt at regime change, offer the regime all security guarantees its paranoid vision demands, and in return expect that the regime will keep a promise it will make not to develop the bomb.

The proposed policy has several flaws: it over-estimates the regime's strength and overlooks its profound strategic vulnerabilities—today more pronounced and evident than ever before. Moreover, the policy counts on the regime keeping its words on forfeiting the development of a nuclear bomb. A regime that lies to its own people will lie to the world. More dangerous still is the fact that the Shiite clerics who rule Iran are hard believers in the theological concept of *Tagiye*—a salutary lie to save the faith or the faithful. According to Shiite doctrine, *Tagiye*, or lying to infidels is not only right but the duty of the faithful. The grand bargain, in other words, is a good deal for the clerical regime and a bad bargain not just for America but for Iranian democrats. Any hint that the US has forfeited or suspended its commitment to human rights and democracy in Iran is sure to weaken the forces of democracy in Iran. Iranian people have now shown more clearly than ever that while they do not want the kind of foreign dictated "regime change" that was for years the dream of some in Washington, they do want to change the regime to a democratic one. The grand bargain advocated by regime apologists betrays these forces, and they are, in the long run, the most reliable allies of America in Iran.

The second flawed policy was offered by those who exaggerated the weaknesses of the regime. Using understandable concerns of citizens in Israel and the West about a nuclear Iran, they advocated a policy of "regime change." Should the effort fail—as it was doomed to fail from the beginning—proponents of the policy argued that military strikes against Iranian nuclear sites will push the already disgruntled Iranian population beyond the tipping point and into a massive uprising against the regime. Images of barbaric brutality by regime hooligans has been used by advocates of this policy as yet another proof that the clerical regime can not be trusted with a nuclear bomb. In reality, the best thing that can happen for these barbaric forces is that the US (or Israel) decide to attack Iran.

The clerical regime can certainly not be trusted with the bomb but the way to deny it is not through smart bombs but smart diplomacy and smart sanctions that curtail and contain the regime's ability to engage in mischief around the world while sending a positive message of support to the democratic forces of Iran. This policy must have as its ultimate goal the idea of helping Iran become a democratic polity. It must have the humility to recognize that only the Iranian people themselves can create this democracy. In the short and medium term, US policy must engage in creative, critical and cautious engagement with Iran. A military strike only saves the day for Khamenei and his cohorts

and is sure to lead to the regime's open and aggressive search for the bomb. Based on all we know from Iranian history and human psychology, a military attack on Iran will invariably force the now disgruntled Iranians to rally around the flag, and eschew opposition to the regime.

The US as well as other democracies around the world can help the cause of democracy in Iran by withholding recognition to the Ahmadinejad government till at least the resolution of the current crisis. The next few weeks are in no way likely to change the course of Iran's nuclear program or put it in a new stage of readiness on its path to becoming at least a virtual nuclear state like Japan. The wait is as much symbolic as substantive. The Obama administration had earlier correctly understood and stipulated that in Iran, Khamenei is far more important in setting foreign and nuclear policy than any president. Ahmadinejad's highly compromised condition makes him an even less likely successful interlocutor. But if the triumvirate survives and succeeds in suppressing the opposition it will be the commanders of the IRGC who will set policy and not Khamenei. The much-needed policy of engagement with Iran can not begin until we know who rules Iran. The next few weeks are sure to give us strong hints about that.

Chairman BERMAN. Dr. Rubin.

STATEMENT OF MICHAEL RUBIN, PH.D., RESIDENT SCHOLAR, THE AMERICAN ENTERPRISE INSTITUTE, SENIOR LECTURER, NAVAL POSTGRADUATE SCHOOL

Mr. RUBIN. Mr. Chairman, Ranking Member Ros-Lehtinen, honorable members, thank you for this opportunity to testify.

On July 15th, Secretary of State Clinton spoke of engagement in the course of a broader foreign policy address. About the Islamic Republic, Clinton said, we know that refusing to deal with the Islamic Republic has not succeeded in altering the Iranian march toward a nuclear weapon, reducing Iranian support for terror, or improving Iran's treatment of its citizens.

Secretary Clinton is correct to note the challenges the Islamic Republic poses but is incorrect to blame her predecessors rather than the Islamic Republic itself for the failure of diplomacy. It is a myth that the United States has not engaged Iran. Every administration since Jimmy Carter's has engaged the Islamic Republic.

In each case, it was not lack of good will on Washington's part but rather the regime leader's disinterest which lead to failure. Ironically, the most hardline U.S. administration toward Iran was Bill Clinton's, at least in its early years.

National Security Council official Martin Indyk made dual containment the central pillar of U.S. strategy. As Iranian sponsorship of terrorism and its pursuit of nuclear technology accelerated, the Clinton administration ratcheted up sanctions, issuing two executive orders in 1995, the prohibiting transactions that would lead to the development of Iranian petroleum resources; and then, second, imposing a ban on United States trade with and investment in Iran.

Then, in 1996, Congress passed the Iran-Libya Sanctions Act, which empowered the United States to act against private companies investing in Iran.

Many U.S. policymakers, however, were unhappy with containment. There seems to be little justification for the treatment the United States currently affords Iran because of its nuclear program, former National Security Advisor Brzezinski and Scowcroft argued, suggesting an end to unilateral sanctions and proffering of incentives, such as greater commercial exchange.

Iranian President Mohammad Khatami's election, however, lead the Clinton administration to renew its efforts at dialogue. Clinton jumped at the chance to bring Iran in from the cold. He ordered withdrawn and destroyed the FBI's report detailing the Islamic Revolutionary Guard Corp's involvement in the Khobar Towers bombing.

Within weeks, Secretary of State Albright sent a letter to Khatami expressing Washington's desire for government-to-government dialogue.

The initiative foundered after the Iranian Government refused to move forward with any dialogue so long as U.S. sanctions and trade bans remained in place. While former National Security Advisor Scowcroft criticized the Clinton administration for obstinacy, Clinton's caution was prudent. Years later Abdollah Ramezanzadeh, the Khatami Government spokesman, acknowledged Tehran's lack of sincerity explaining, "We had one overt policy, which was one of the negotiation and confidence-building, and a covert policy, which was continuation of the activities."

Still Clinton remained persistent in pursuit of dialogue. After Albright spoke to the American Islamic Congress in 2000—sorry, the American Iranian Council in 2000, the Islamic Republic's ambassador at the United Nations said that Iran would be "prepared to adopt proportionate and positive measures in return."

While his response made headlines, a year later, Iranian authorities had not offered any discernible measures. Khatami explained that the United States had simply not offered enough for Albright's initiative to merit any response.

Ultimately, Albright's unilateral concessions backfired. Foreign Minister Kamal Kharrazi responded to Albright's "confessions" of past U.S. malfeasance by demanding reparations. On July 16th, 2000, the Iranian Government tested a Shihab-3 missile, a deliberate attempt to undercut accelerating Arab-Israeli peace talks. Supreme Leader Khamenei poured cold water on any optimism when, in a July 27th statement, he urged that any negotiations, let alone rapprochement, with Washington would be "an insult and treason to the Iranian people," a position which he retains.

Despite the demonization of George W Bush, Bush was more open to diplomacy with the Islamic Republic than any other President since Carter. In 2001 and 2002, United States and Iranian diplomats met to discuss Afghanistan, and the next year Iranian U.N. Ambassador met senior United States officials Zalmay Khalilzad and Ryan Crocker in Geneva.

Some say Bush missed a grand bargain opportunity in 2003, but as even pro-engagement officials, like former Deputy Secretary of State Richard Armitage, acknowledge, this is more a myth that re-

sulted from wrongly ascribing Iranian authorship to an attention-seeking Swiss diplomat's personal initiative.

Many advocates of engagement say that its previous failure can be ascribed to the failure to provide adequate incentive or to truly embrace the strategy. Here the European Union provides insight as it long pursued engagement unencumbered by meaningful coercion.

Beginning in 1992, the European Union undertook a policy of critical dialogue. Critical engagement did not lead to any noticeable improvement in Iran's human rights conditions, which indeed worsened during the course of the dialogue. Persecution of religious minorities like Bha'is increased and censorship remained heavy-handed. Between 1992 and 1996, the Iranian Government refused to allow a U.N. Special Representative on Human Rights in Iran to visit the country. Between 1995 and 1996, the height of the dialogue, Iranian use of the death penalty doubled.

Engagement has also failed to alter Iranian support for terrorism or proliferation activities, issues which more directly impact United States national security. The 2007 National Intelligence Estimate indicated that the Islamic Republic maintained a covert military nuclear program until 2003. That is throughout Khatami's Dialogue of Civilizations. IAEA reports from the period suggest a deliberate counter effort that spanned many years to conceal material, facilities, and activities that were required to have been declared under the safeguard agreements.

Earlier this summer, Hassan Rowhani, Iran's former nuclear negotiator, acknowledged to an Iranian interviewer that the Iranian leadership's previous suspension of uranium enrichment at the behest of European negotiators was more tactical than a true concession. We did not accept suspension and construction of centrifuges and continued the effort, she said; we needed a greater number.

Despite finding in 2003 that Iran had been developing a uranium centrifuge enrichment program for 18 years, German Foreign Minister Joschka Fischer corralled European Union authorities to urge giving the Islam Republic another chance so as not to diminish leverage.

Too often, and this is my fear with the Obama administration, the desire to preserve leverage to wield in future diplomacy becomes a chief argument against ever utilizing or pursuing punitive measures based on an adversary's actions. In a diplomatic calculation, ensuring continuation of talks supersedes reality.

Of course, diplomacy is the strategy of first resort. It always has been. Unfortunately, it does not always succeed. Engagement has shown itself no magic formula for three reasons, and I offer these in conclusion.

First, it takes two to tango, what Carter, Bush the elder, Reagan, and Bush the younger learned, but their domestic critics have not, is that the impediment to engagement lies not in Washington, but in Tehran. When Under Secretary of State William Burns sat down with his Iranian counterpart in Geneva in July 2008, Mohammad Ja'afi Assadi, commander of the Iranian Republican Guard Corps ground forces, quipped that Washington's desperation showed that "America has no other choice but to leave the Middle East region beaten and humiliated."

For diplomacy to be effective, the target government must empower its diplomats to negotiate over contested issues and then abide by agreements reached. Unfortunately, Iranian diplomats hold no sway over Iran's nuclear program or terror sponsorship. These are the purview of the Islamic Revolutionary Guard Corps and the Office of the Supreme Leader.

And lastly, the Obama administration appears intent to sequence policies. Comprehensive strategies, however, have not only diplomatic but also informational, military, and economic components. Absent any effort to lay the groundwork for either containment or deterrence, both military strategies, Washington is signaling to its allies that the U.S. commitment to protect them is empty.

Arab states and Iran's neighbors——

Chairman BERMAN. Doctor, we do have to——

Mr. RUBIN. Okay, I will.

Appear more concerned than Congress that neither Obama nor Clinton have articulated by what metric the administration will judge success. This is of paramount importance to prevent Iranian officials from simply running down the clock.

[The prepared statement of Mr. Rubin follows:]

"Iran: Recent Developments and Implications for U.S. Policy"
Testimony before the House Foreign Affairs Committee

Michael Rubin, Ph.D.
American Enterprise Institute
Naval Postgraduate School

July 22, 2009

Mr. Chairman, Honorable Members. Thank you for this opportunity to testify. On July 15, 2009, Secretary of State Hillary Clinton spoke of engagement in the course of a broader foreign policy address. "We cannot be afraid or unwilling to engage," she declared, adding, "As long as engagement might advance our interests and our values, it is unwise to take it off the table. Negotiations can provide insight into regimes' calculations and the possibility—even if it seems remote—that a regime will eventually alter its behavior in exchange for the benefits of acceptance into the international community." About the Islamic Republic the Secretary of State said, "We know that refusing to deal with the Islamic Republic has not succeeded in altering the Iranian march toward a nuclear weapon, reducing Iranian support for terror, or improving Iran's treatment of its citizens."

Secretary Clinton is correct to note the challenges the Islamic Republic poses, but is incorrect to blame her predecessors rather than the Islamic Republic itself for the failure of diplomacy. It is a myth that the United States has not engaged Iran. Every administration since Jimmy Carter's has engaged the Islamic Republic. During the 1980 presidential campaign, Ronald Reagan criticized the Carter administration's diplomacy toward Iran but then, faced with his own Iranian-instigated hostage crisis, also sought to offer incentives. During his inaugural address, George H.W. Bush extended an olive branch to Iran. "Good will begets good will. Good faith can be a spiral that endlessly moves on," he declared. Days later, he clarified, "I don't want to…think that the status quo has to go on forever. There was a period of time when we had excellent relations with Iran." Bush offered an olive branch with the promise of better relations upon the release of the hostages, but refused to make concessions or offer incentives, even as prominent foreign policy voices like Rep. Lee Hamilton, chairman of the House Foreign Affairs subcommittee on the Middle East, urged him "to send some kind of gesture." The Supreme Leader dismissed Bush's initiative, however. "Iran does not need America," he told Tehran radio.

When Bill Clinton took office in 1993, relations with Iran were frozen. Neither Khomeini's death nor the accession of Rafsajani had changed Iranian behavior. Indeed, as the Oslo Accords brought real hope of an end to the Arab-Israeli conflict, U.S. concern at Iranian attempts to disrupt the peace process grew. Dual Containment became the benchmark strategy during Clinton's first term. As Martin Indyk, the lead National Security Council aide on the Middle East told the Washington Institute for Near East Policy, "We do not seek confrontation but we will not normalize relations with Iran until and unless Iran's policies change across the board."

As Iranian sponsorship of terrorism and its pursuit of nuclear technology accelerated, the Clinton administration ratcheted up sanctions. Clinton Administration issued two Executive Orders in 1995, the first prohibiting transactions that would lead to the development of Iranian petroleum resources, and the second imposing a ban on U.S. trade with and investment in Iran. Then, in

1996, Congress passed and Clinton signed the Iran-Libya Sanctions Act which empowered the United States to act against private companies investing in Iran. Many U.S. policymakers, however, were unhappy with containment. "There seems little justification for the treatment the United States currently accords Iran because of its nuclear program," former National Security Advisors Zbigniew Brzezinski and Brent Scowcroft argued, suggesting an end to unilateral sanctions and proffering of incentives, such as greater commercial exchange.

Iranian President Mohammad Khatami's election, however, led the Clinton administration to renew its efforts at dialogue. Speaking to the parliament after his swearing-in on August 4, 1997, Khatami declared, "We are in favor of a dialogue between civilizations and a détente in our relations with the outside world." Khatami's call for dialogue led to a proliferation of study group reports, each urging Washington to engage Tehran with few if any preconditions. Most of these reports with the benefit of hindsight are painfully naïve.

Clinton jumped at the chance to bring Iran in from the cold. He ordered withdrawn and destroyed the FBI's report detailing the Islamic Revolutionary Guard Corps' involvement in the Khobar Towers bombing. Within weeks, Secretary of State Madeleine Albright sent a letter to Khatami expressing Washington's desire for government-to-government dialogue. Khatami did not reply directly, but U.S. officials believed his subsequent statements signaled a willingness to engage. In December 1997, for example, Khatami expressed "great respect" for the "great people of the United States," and called for "a thoughtful dialogue." Reporters remarked on his "markedly different" tone from his predecessors. In a January 1998 CNN interview, Khatami reiterated these themes, declaring, "Not only do we not harbor any ill wishes for the American people, but in fact we consider them to be a great nation," and outlined a desire for "dialogue of civilizations."

Albright responded in a speech to the Asia Society, declaring that Clinton "welcomed" Khatami's call and would, accordingly, streamline procedures to issue Iranians visas and facilitate academic and cultural exchanges. The initiative floundered after the Iranian government refused to move forward with any dialogue so long as U.S. sanctions and trade bans remained in place. The Clinton administration refused. While former National Security Advisor Brent Scowcroft criticized the Clinton administration's obstinacy, Clinton's caution was prudent. Years later, Abdollah Ramezanzadeh, the Khatami government spokesman, acknowledged Tehran's lack of sincerity, explaining, "We had one overt policy, which was one of negotiation and confidence building, and a covert policy, which was continuation of the activities."

Albright continued pursuit of dialogue and engagement into the waning days of the Clinton administration. On March 17, 2000, shortly before the Iranian New Year celebrations, Clinton spoke to the American Iranian Council. She began by acknowledging many Iranian grievances. While Clinton did not apologize for the CIA-sponsored 1953 coup against Prime Minister Mohammad Mosaddeq, *The Washington Post* nevertheless called her statement, "the boldest attempt yet by the Clinton administration to capitalize on the movement toward moderation in Tehran." She also made a number of concessions, including an end to the ban on U.S. imports of Iranian pistachios and caviar, two of Iran's most lucrative non-oil industries, a relaxation of visa restrictions upon Iranians wishing to travel to the United States, and a start to the process of releasing assets frozen almost two decades earlier during the hostage crisis.

The Iranian government at first reacted positively to Albright's speech. Hadi Nejad-Hosseinian, the Islamic Republic's ambassador at the United Nations, said that Iran would be "prepared to adopt proportionate and positive measures in return." While his response made headlines, a year later, Iranian authorities had not offered any discernible measures. Khatami explained that the United States had simply not offered enough for Albright's initiative to merit any response. Ultimately, however, Albright's unilateral concessions backfired. Foreign Minister Kamal Kharrazi responded to Albright's "confessions" of past U.S. malfeasance by demanding reparations. On July 16, 2000, the Iranian government tested a Shihab-3 missile, a deliberate attempt to undercut accelerating Arab-Israeli peace talks. Supreme Leader Khamenei poured cold water on any optimism when, in a July 27, 2000 statement, he argued that any negotiations, let alone rapprochement, with Washington would be "an insult and treason to the Iranian people."

Despite the demonization of George W. Bush, the current president has been more open to diplomacy with the Islamic republic than any president since Carter. In 2001 and 2002, U.S. and Iranian diplomats met to discuss Afghanistan and, the next year, Iranian UN Ambassador Mohammad Javad-Zarif met senior U.S. officials Zalmay Khalilzad and Ryan Crocker in Geneva.

Indeed, Bush has found himself besieged from all sides. Proponents of diplomacy condemn Bush for the moral clarity inherent in the January 2002 "axis of evil" speech and argue that the president's State of the Union statements sidetracked diplomacy. Bush's rhetoric, however, was not gratuitous, but rather reflected intelligence which showed that the Islamic Revolutionary Guard Corps was acting in discord with the promises of Iranian diplomats, apparently with the acquiescence of Iran's top leadership. Some say Bush missed a Grand Bargain opportunity in 2003, but, as even pro-engagement officials like former Deputy Secretary of State Richard Armitage acknowledge, this to be a myth that resulted from wrongly ascribing Iranian authorship to an attention-seeking Swiss diplomat's personal initiative. Meanwhile, those with less tolerance for Iran's support of terrorism, its violent opposition to the Middle East peace process, and its nuclear-weapons ambitions condemn Bush for having pursued a policy of rapprochement at odds with his rhetoric.

Many advocates of engagement say that its previous failure can be ascribed to the failure to provide adequate incentive or to embrace truly the strategy. Here, the European Union provides insight, as it long pursued engagement unencumbered by meaningful coercion. Beginning in 1992, the European Union undertook a policy of critical dialogue and engagement. Critical engagement did not lead to any noticeable improvement in Iranian human rights conditions which, indeed, worsened during the course of the engagement. In 1995, for example, Iranian authorities passed a law combining the role of prosecutor and judge in court. Persecution of religious minorities like Baha'is increased, and censorship remained heavy-handed. Between 1992 and 1996, the Iranian government refused to allow a UN Special Representative on the Human Rights Situation in Iran to visit the country. Between 1995 and 1996, for example, arguably the height of Critical Dialogue, Iranian use of the death penalty doubled.

Perhaps, as many realists argue, human rights should not be a paramount U.S. concern. Alas, engagement has also failed to alter Iranian support for terrorism or proliferation activities, issues which more directly impact U.S. national security. Let me dispense with the early 1990s, when the Iranian government answered European engagement with state-sponsored assassinations of dissidents and terror bombings as far afield as Argentina. On the nuclear issue, the Europeans' dialogue fared no better than on human right. The 2007 National Intelligence Estimate indicated that the Islamic Republic maintained a covert military nuclear program until 2003; that is, throughout Khatami's Dialogue of Civilizations. IAEA reports from the period suggest a "deliberate counter effort that spanned many years, to conceal material, facilities, and activities that were required to have been declared under the safeguards agreement – material, facilities and activities that covered the entire spectrum of the nuclear fuel cycle, including experiments in enrichment and reprocessing." Earlier this summer, Hassan Rowhani, Iran's former nuclear negotiator, acknowledged to an Iranian interviewer that the Iranian leadership's previous suspension of uranium enrichment at the behest of European negotiators was more tactical than a true concession. The Islamic Republic was motivated, he said, by its desire "to counter global consensus against Iran." He noted, however, "We did not accept suspension in construction of centrifuges and continued the effort. . . . We needed a greater number." Despite finding in 2003 that Iran had been developing an uranium centrifuge enrichment program for 18 years, and a laser enrichment program for 12 years, Germany Foreign Minister Joschka Fischer corralled European Union authorities to urge giving the Islamic Republic another chance so as not to diminish leverage. Too often, the desire to preserve leverage to wield in future diplomacy becomes a chief argument against ever utilizing leverage or pursuing punitive measures based on an adversary's actions. In the diplomatic calculation, ensuring continuation of diplomacy supersedes reality.

Of course, diplomacy is the strategy of first resort. It always has been. Unfortunately, it does not always succeed. Alas, engagement has shown itself to no magic formula for three reasons. First, it takes two to tango. What Carter, Bush the elder, Clinton, and Bush the younger learned -- but their domestic critics have not -- is that the impediment to engagement lies not in Washington but in Tehran. The day after Rice offered Iran an end to its isolation, Ahmadinejad dismissed Rice's offer as "a propaganda move." When Undersecretary of State William Burns sat down with his Iranian counterpart in Geneva in July 2008, Mohammad Ja'afi Assadi, commander of Iranian Republican Guards Corps ground forces, quipped that Washington's desperation showed that "America has no other choice but to leave the Middle East region beaten and humiliated." On October 12, 2008, Vice President Mehdi Kalhor said: "As U.S. forces have not left the Middle East region and continue their support for the Zionist regime, talks between Iran and U.S. are off the agenda."

Second, for diplomacy to be effective, the target government must empower its diplomats to negotiate over contested issues and then abide by agreements reached. Unfortunately, the Iranian nuclear program appears more the purview of the Islamic Revolutionary Guard Corps (IRGC) and the Office of the Supreme Leader rather than the Iranian Foreign Minister. Neither the IRGC nor the Supreme Leader have expressed willingness to negotiate.

Third, the Obama administration appears intent to sequence policies. Comprehensive strategies, however, fit into the DIME paradigm, and have not only diplomatic, but also informational,

military, and economic components. Absent any effort to lay the groundwork either for containment or deterrence – both military strategies -- Washington is signaling to its allies that the U.S. commitment to protect them is empty.

Arab states and Iran's other neighbors appear more concerned than Congress that neither Obama nor Clinton have articulated by what metric the administration will judge success. This is of paramount importance to prevent Iranian officials from simply running down the clock.

If it appears that Iranian authorities mean only to run down the clock as they acquire greater capability, regional states may calculate that they have no choice but to make greater accommodation to Tehran's interests. This will hamper U.S. efforts to win broad diplomatic support for its strategy. When poorly-timed and considered, diplomacy can ironically undercut its own efficacy.

The danger is apparent. Should Israeli officials believe that the West will stand aside as Iran achieves nuclear capability and that a nuclear Islamic Republic poses an existential threat to the Jewish state, they may conclude that they have no choice but to launch a preemptive military strike--an event that could quickly lead to a regional conflagration from which the United States would have difficulty remaining aloof, regardless of the White House's intentions.

Chairman BERMAN. Thank you very much.

Dr. Maloney.

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

Ms. MALONEY. Thank you and good morning.

Mr. Chairman and members of the Committee on Foreign Affairs, thank you very much for giving me the opportunity to comment on the past 6 weeks of upheaval in Iran and the consequences of the these developments for the United States and our policy options toward Tehran.

In the aftermath of events that have challenged all that we thought we knew about Iran, it is particularly valuable for the committee to address this issue and to engage in a serious reassessment of the most effective means for Washington to influence Tehran's policies and its future course.

The Islamic Republic has entered a new and ultimately unpredictable phase of its perpetually gripping history. Iran and the regime are now forced to contend with an almost unprecedented array of internal challenges that are both complex and interconnected.

The outrage over the electoral manipulation has spawned a genuine if still embryonic opposition movement, perhaps for the first time since the mid-1980s in Iran, that boasts at least a symbolic leadership and a compelling popular mandate.

The other profound consequence for the Iranian regime, as some of the previous panelists have suggested, is the cleavage within the political elite. There has always been factional bickering within Iran, but we have never seen anything at this level. And we have never seen the direct assault on the authority of the Office of the Supreme Leader.

In doing so, the crucial component of the Iran's elite has begun to separate itself from the regime to promote the opposing agenda of a nascent mass-based movement. This is highly significant.

There are at least three potential directions that Iran's volatile course may yet take. Khamenei's power grab may yet herald the arrival of an increasingly despotic Iranian regime, unconstrained by the niceties of limited electoral institutions or any pretense of popular legitimacy.

We can see in Iran's past some precedent for this. In the mid-1980s, the Iranian regime ferociously defended the system and the newly established theocracy against internal threats, both real and perceived. We may well see a reprise of that history.

There are at least two alternatives scenarios that would seem more encouraging in the short term. The first would entail some negotiation of a modus vivendi among Iran's hardliners and the quartet of moderate leaders that others have referred to. This could look anything like a super-empowered reform movement in which you saw a kinder, gentler Islamic Republic, or a complete capitulation by the reformist leaders to become a sort of loyalist opposition along the lines of the Iranian freedom movement, which existed for well over a decade after the Islamic Revolution.

The third potential scenario at present seems out of reach but remains the most dramatic threat to the Iranian regime. Given time and further catalysts, the elite defections and popular resentment might yet morph into something more powerful, and Iran might experience the genesis of a serious sustained opposition movement dedicated to ousting the current regime.

Among the most important factors influencing Iran's future trajectory and the tools available to the international community are those related to the Iranian economy. As Dr. Clawson suggested, Iranians must contend with double-digit inflation; power shortages; a tumbling stock market; stubbornly high unemployment rates, particularly among the large, young population; increasing dependence on volatile resource revenues; and perhaps most ominously for the leadership, a rising tide of indignation among its people.

Ironically, of course, Ahmadinejad was elected on the basis of a campaign back in 2005 that focused on the economic grievances of Iranians. And yet he governed on the basis of ideology. And as a result, the President himself bears much direct responsibility for the current state of Iran's economic affairs. His heavy-handed interference with monetary policy and free-wheeling spending contributed to spiraling inflation rates. His provocative foreign policy and reprehensible rhetoric has done more to dissuade potential investors than any United States or United Nations sanctions. His disdain for the technocracy and his somewhat quixotic economic notions have undermined much of the progress that was made in previous years to liberalize the Iranian economy and address its underlying distortions. And he spends like a drunken sailor, as Dr. Clawson has suggested.

The senselessness of these policies provoked a firestorm of criticism through his last several years in office. Notably, the critiques were not limited just to his factional adversaries. Much of the disquiet voiced about the economic police of the Ahmadinejad regime has emerged from sources ideologically inclined to support the

President and his patron, the supreme leader, including traditional conservatives with longstanding links to the bazaar and the centers of clerical learning.

As both Dr. Clawson and Dr. Milani suggest, what had particularly galled many Iranians was the opportunity lost in the past few years. Iran's oil revenues during Ahmadinejad's first term exceeded 8 years of income earned during both the Khatami and the Rafsanjani presidencies. Nearly 40 percent of Iran's oil earnings over the past 30 years came during the past 4 years. And no one knows, as both Dr. Milani and Dr. Clawson have suggested, where much of this money has gone.

The unrest of the past 6 weeks will only aggravate Iran's economic dilemmas and put durable solutions to the perpetual problems of uncontrollable subsidies, unaccountable spending, that much further out of reach. The crisis will persuade more Iranians who have the means and/or ability to leave the country. Even in advance of any multilateral sanctions, political risks and the increasingly unpalatable nature of the new power structure will dissuade investors and reduce the competitiveness of the Iranian economy.

The events since June 12th have changed Iran in a profound and an irreversible fashion. It would be fruitless, even counterproductive, to proceed as if this were not the case. The United States must adjust both its assumptions about Iran and its approach to dealing with our concerns about Iranian policies.

But the turmoil in Iran has not altered our core interests vis-à-vis Iran, nor has it manifestly strengthened the case for alternatives to the Obama administration's stated policy of diplomacy.

As a result, I remain a supporter of the American strategy of engaging Iran. The United States is going to have to deal with an increasingly paranoid and dogmatic Iranian regime, one that is preoccupied with a low-level popular insurgency and schism among its leadership.

Still, the Obama administration's interest in engagement was never predicated on the palatability of the Iranian leadership but on the urgency of the world's concerns and the less promising prospects of the array of policy alternatives.

How do we draw thuggish theocracy to the bargaining table? The hurdles are not insurmountable. The context for the successful 1980 to 1981 diplomacy that lead to the release of the American hostages was at least as challenging of that of today. At that time, you also had a situation in which most of the moderates had been forced out of the Iranian Government, and the people who we were sitting across the bargaining table from were from a particularly hardline group of people whose authority, credibility, and ultimate goals were very much obscure.

A successful agreement entailed months of work and many false starts, but a variety of tools, including secret diplomacy, the involvement of a third-party mediator as a guarantor for the eventual agreement, helped facilitate an outcome. Perhaps a critical factor in the success of the hostage negotiations was Iran's desperate need for economic and diplomatic options after the Iraqi invasion.

In a similar respect, any U.S. effort to negotiate with Tehran will benefit from the identification of counterincentives that can simi-

larly focus the minds of Iranian leaders and expedite the path of negotiators. This is the proper role for coordination with U.S. allies on an intensification of sanctions should engagement fail. And here we should focus our efforts on Beijing.

We shouldn't presume too much with respect to the efficacy of sanctions. There are no silver bullets, and sanctions, in fact, haven't proven successful in the past in reversing Iranian policies. But they work best when they alter the perceptions, timing, and utility of swaying a critical constituency, and this is where our efforts should be focused.

Finally, to conclude, let me just say that we are facing a situation of intense fluidity in Iran, and we should always be applying a test of the "island of stability" sort of rhetoric that was used by the Carter administration in the run up to the Iranian Revolution. We don't know simply whom we are going to be dealing with in a year's time in Iran.

Thank you.

[The prepared statement of Ms. Maloney follows:]

Suzanne Maloney
Senior Fellow
The Saban Center for Middle East Policy at Brookings

Testimony before the House Committee on Foreign Affairs, July 22, 2009
Hearing: "Iran: Recent Developments and Implications for U.S. Policy"

Mr. Chairman and members of the Committee on Foreign Affairs, thank you for giving me the opportunity to comment on the past six weeks' of upheaval in Iran and the consequences of these developments for the United States and our policy options toward Iran. In the aftermath of events that have challenged all that we thought we knew about Iran, it is particularly valuable for the Committee to address this issue and engage in a serious reassessment of the most effective means for Washington to influence Tehran's policies and its future course.

As requested, I'll specifically address the economic situation in Iran during my remarks today, but let me first suggest some broader points about the context that we are dealing with in Iran at this stage, because it is that tumultuous context that is the impetus of today's hearing. The Islamic Republic has entered a new and ultimately unpredictable phase of its perpetually gripping history. The decision to rig the outcome of the June 12th presidential elections in favor of President Mahmoud Ahmadinejad and all that has followed in its wake have transformed Iran's political system, reshaped the political jockeying of its elite decision makers, and intensified the dissatisfaction of millions of its citizens.

As a result, the Islamic Republic today is now forced to contend with an almost unprecedented array of internal challenges that are both complex and interconnected. The outrage over the election manipulation has spawned a genuine if still embryonic opposition movement that boasts at least a symbolic leadership and a compelling popular mandate. The passionate, disciplined street demonstrations that crescendoed in the days after the election continue to percolate and – with further provocations and/or coherent direction – could evolve into a powerful and even a revolutionary force. This is a truly significant development. While Tehran's democratic pretenses have always been offset by its underlying authoritarian impulses, the modest role accorded to representative rule bolstered the regime's stability and legitimacy for most of the past three decades. Their elimination and the emergence in their place of a mass-based opposition make the regime's increasing absolutism unsustainable in the long run.

The other profound consequence for the Iranian regime is the eruption of intense and possibly irreparable divisions among its leadership. At every point in the regime's nearly 30-year history, its leadership has engaged in fratricidal partisanship, but this elite wrangling has rarely if ever threatened the regime's survival simply because Iranian power brokers have been bound by decades of interaction, layers of personal and pecuniary ties, and a shared commitment to preserving the Islamic system. But as is

evident by the surprisingly bold defiance of regime stalwarts such as Mir Husayn Musavi, Mohammad Khatami and Akbar Hashemi Rafsanjani, the blatantly rigged election represented a threat of historic proportions even for the revolutionary system's true believers. As a result, these figures and others have engaged in what constitutes the most provocative sort of discourse for any Iranian political actor – they have challenged the authority of Iran's supreme leader, Ayatollah Ali Khamenei, and the sanctity of his office. In doing so, a crucial component of Iran's elite has begun to separate itself from the regime to promote the opposing agenda of a nascent mass-based movement. These elite defections signal the end of Iran's factional bickering as a mundane intramural argument and the opening salvo of a new phase of existential competition within Iran's corridors of power.

There are at least three potential directions that Iran's volatile course could yet take: Khamenei's power grab may well herald the arrival of an increasingly despotic Iranian regime, unconstrained by the niceties of limited electoral institutions or any pretense of popular legitimacy to avoid large-scale repression of its own population. In the throes of its early post-revolutionary civil war, the Islamic Republic's leadership ferociously defended itself and its newly established theocracy against internal threats, both real and perceived, with torture, mass executions, and other unsavory tactics. A reprise of this approach of securing authority may even appeal to the firebrand commanders of the Revolutionary Guard and Basij, whose raison d'etre remains steeped in hyperbolic threat perception. Such a totalitarian outcome is, sadly, not inconceivable, although it would be inherently transitory in a country that replete with the building blocks of democracy, including a lengthy constitutional tradition and a vocal, well-educated population.

There are at least two alternative scenarios that would seem more encouraging at least in the short term. The first would entail the negotiation of some modus vivendi among Iran's hard-liners and the quartet of moderate leaders – the three mentioned above along with Mehdi Karrubi, the other reformist presidential candidate – who have led the charge against the election fraud. The outcome could entail a range of scenarios with varying degrees of compromise by each side. The maximalist would feature the revitalization of a super-empowered reform movement, complete with new constraints on the office of the supreme leader and a referendum on the political system as Khatami has recently suggested. A less promising negotiated scenario would involve even greater concessions by reformists, yielding an uneasy peace in which, like Mehdi Bazargan, the leader of Iran's original post-revolutionary government who resigned over the 1979 seizure of the U.S Embassy, reformists are relegated to some neutered form of loyal opposition in exchange for self-imposed constraints on regime repression.

Finally, the third potential scenario is the one that at present still seems out of reach but remains the most dramatic threat to the current Iranian regime. Given time and further catalysts, the elite defections and popular resentment spawned in the past six weeks might yet morph into something more powerful and Iran might experience the genesis of a serious, sustained movement dedicated to ousting the current regime in its entirety. Despite the dramatic scenes of mass opposition and regime-sponsored violence, most of the protestors and their de facto leadership have taken pains to focus their grievances on

electoral procedures and subsequent miscarriages of justice, and have explicitly avoided an overt challenge to the overarching Islamic system. Obviously, these prospective scenarios are not mutually incompatible; the turn toward totalitarianism may well be the spark that generates a genuine opposition, and the fitful process of elite negotiation can be overtaken by events on the street and the emergence of an unyielding opposition leader, as transpired thirty years ago.

The Iranian Economy:

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

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

Despite this apparent mandate, however, Ahmadinejad governed on the basis of ideology rather than performance. As a result, the president himself bears much direct responsibility for the current state of Iran's economic affairs; his heavy-handed interference with monetary policy and freewheeling spending contributed the spiraling inflation rates, and his provocative foreign policy and reprehensible rhetoric has done more to dissuade prospective investors than any U.S. or United Nations actions. His personal disdain for the technocracy and quixotic economic notions has undermined much of the progress that has been made in recent years to liberalize the Iranian economy and address its underlying distortions. The president has boasted of his instinctive grasp of economic policy, reveled in the reverberations of the global economic meltdown, and scoffed that his government could withstand even a drop in oil prices to a mere $5 per

barrel. And he spent – taking full advantage of an epic oil boom that reaped more than $250 billion in his first three and a half years as president. Ahmadinejad traversed the country with his full cabinet in tow, and taking evident enjoyment from a paternalistic process of doling out funds large and small for picayune provincial projects and even individual appeals.

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

Thanks to his assiduous deployment of economic grievances during his original campaign and his copious and public spending throughout his first term, Ahmadinejad made himself particularly vulnerable to the regime's stumbling in this arena. What particularly galled so many Iranian political figures was the opportunity sacrificed by the malfeasance of the past few years. Iran's oil revenues under Ahmadinejad's first term exceeded eight years' of income during both the Khatami and Rafsanjani presidencies; indeed of the more than $700 billion that Iran has earned through oil exports in the past thirty years, nearly 40 percent came in during the past four years. Adding fuel to the fire was the lack of transparency over its allocation; having decimated the economic planning bureaucracy and attempted to classify the details of the nation's oil reserve fund, Ahmadinejad left vast ambiguity as to the destination of tens of billions of dollars of his government's spending. The presumption is much of it has financed record consumption, with a disturbingly high import quotient, rather than creating jobs, attracting investors, or taking advantage of Iran's large, well-educated baby boom as it comes of age.

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

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

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

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

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

US Policy Options:

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

But the turmoil within Iran has not altered America's core interests vis-à-vis Iran, nor has it manifestly strengthened the case for alternatives to the Obama Administration's stated policy of diplomacy. The worst of these prospective alternatives, military action, remains fraught with negative consequences for all of our interests across the region, including the revitalization of the peace process and the establishment of secure, independent states in Iraq and Afghanistan. Even as an option of last resort, military action would leave us and our allies in the Middle East markedly less secure and would likely strengthen rather than derail Iran's nuclear ambitions.

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

As a result, and perhaps alone among the panelists today, I remain a supporter of an American strategy of engaging Iran. As profound as recent events have been in splintering the Iranian leadership and creating the seeds of an opposition movement, engagement remains the only path forward for Washington. It will require an effort to negotiate with a particularly unpleasant and paranoid array of Iranian leaders. Still, the Obama Administration's interest in engagement was never predicated on the palatability of the Iranian leadership – indeed, until very recently the conventional American wisdom tended to presume a second Ahmadinejad term – but on the urgency of the world's concerns and the even less promising prospects for the array of alternative U.S. policy options.

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

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

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

A successful agreement to end the hostage crisis entailed months of intense work and many false starts, but a variety of tools – including secret negotiations and the involvement of a third-party mediator and guarantor for the eventual agreement – helped facilitate an outcome that both sides abided by. There are no guarantees that the hard-won success of the negotiations that ended the hostage crisis can be replicated today; if anything, the stakes are higher and the Iranian political dynamics are less promising at least in the very short term.

Perhaps the critical factor in the success of the hostage negotiations was the Iraqi invasion and Iran's desperate need for economic and diplomatic options to sustain the defense of the country. In a similar respect, any U.S. effort to negotiate with Tehran may benefit from the identification of incentives and counterincentives that can similarly focus the minds of leaders and expedite the path for negotiators. This is the proper role for an effort to coordinate with U.S. allies on an intensification of sanctions should engagement fail to resolve our concerns about the nuclear program. In particular, we need to step up our dialogue with Beijing, whose interests with respect to Iran diverge substantially from those of the Russians and whose investments in Iran reflect a long-run effort to secure prospective opportunities rather than a short-term calculus of maximizing profit.

Still, we should be careful to presume too much with respect to the efficacy of sanctions. There are no silver bullets with respect to Iran. While Tehran is certainly capable of change, economic pressures alone have only rarely generated substantive modifications to Iranian policy, particularly on issues that the leadership perceives as central to the security of the state and the perpetuation of the regime. In general, external pressure tends to encourage the coalescence of the regime and even consolidation of its public support, and past episodes of economic constraint have generated enhanced cooperation among Iran's bickering factions and greater preparedness to absorb the costs of perpetuating

problematic policies.

The diminution of revolutionary fervor and the arguably less compelling public interest in the nuclear program would surely complicate any effort to persuade Iranians that economic deprivation is an acceptable price to pay for defending what the leadership has portrayed as its national right to technology. However, the global context differs as well; Iran today is not nearly as isolated as it was in the 1980s, the considerable economic opportunities offered by Europe and conceivably by the U.S. are no longer irreplaceable. And the underlying cause of most of Iran's contemporary budget crunch relates to its own mismanagement of epic revenue flows, rather than punitive multilateral measures.

As a result, sanctions, while nominally successful in raising the costs to Tehran of its provocative policies, could fail in their ultimate goal of gaining Tehran's adherence to international nonproliferation norms and agreements. This analysis should not imply that sanctions and other external economic pressures have no value in altering Iran's pursuit of provocative policies. In retrospect, the rare successes relate less to the actual financial cost to the Iranian leadership, which is ultimately survivable, than to the perceptions, timing, and utility in swaying a small but critical constituency. This is where our efforts should focus – on ways to alter the calculations of those influential actors. Efforts to block the import of refined gasoline are unlikely to have such an impact; they will be mitigated by Iran's porous borders and long history of smuggling petroleum products, and those with access to power are likely to retain access to fuel. We need to engage in discussions with our allies about smart sanctions with broad international support

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

Chairman BERMAN. Thank you.

Karim.

STATEMENT OF MR. KARIM SADJADPOUR, ASSOCIATE, MIDDLE EAST PROGRAM, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Mr. SADJADPOUR. Thank you.

Mr. Chairman, it is an honor to be here with you today.

It took us 30 years, took the United States 30 years to finally prepare ourselves to recognize the legitimacy of the Iranian regime just when the Iranian regime has lost its legitimacy, and this is truly the dilemma the Obama administration faces dealing with a disgraced regime which presents urgent foreign policy charges, while at the same time not betraying this incredibly courageous population.

I would like to make a few points about the domestic implications for Iran and also a few points about the implications for United States foreign policy.

In my mind, there have been two important casualties of the last 6 weeks. The first is the moniker of the Islamic Republic of Iran. Iran has ceded any claims, any pretensions of being a republic. In my opinion, Iran has now become a cartel of hardline Revolutionary Guardsmen and hardline clergymen, who have made, as

Abbas said, tremendous amounts of money the last few years and are unwilling to cede power. They describe themselves as so-called principle-ists, but in reality their real principles are power and greed.

The other important casualty from the last 5 weeks has been the loss of legitimacy of the Supreme Leader Ayatollah Khamenei. For the last two decades, he had carefully cultivated this image of a magnanimous godfather who stays above the fray. But those days of Khamenei wielding power without accountability are now over. He has tied himself firmly with the fate of President Ahmadinejad, and it is unprecedented to have hundreds of thousands of people taking to the streets now chanting, "Marg bar Khamenei," death to Khamenei.

A word about the population. According to Mohammad Bagher Ghalibaf, who is the mayor of Tehran, himself a former senior Revolutionary Guard commander, 3 million people took to the streets in Tehran at the height of the protests. And I can tell you from talking to people throughout Iran, and just viewing the images, that these demonstrators have truly encompassed an incredibly wide swath of Iranian society. They transcended age, religiosity, gender, geographic location. The scale of the demonstrations has certainly decreased the last few weeks because the regime does repression very well, and they are able to prevent large amounts of people from congregating in one area, but the nightly protest chants of "Allahu Akbar," God is great, reminiscent of the 1979 Iran revolution, in order to keep the momentum going, have continued unabated.

Now a word about the opposition. The bulk of the leadership of the opposition and their brain trust is now either in prison, under house arrest, or unable to freely communicate. So you have this tremendous popular outrage, but you don't have the leadership which is able to tap into this tremendous popular outrage and channel it politically. That is the dilemma both the demonstrators and the opposition currently face.

A word, however, about the costs of this repression for the regime, both the political costs and the financial costs. As Abbas mentioned, we have seen unprecedented fissures in Iran. It would be unheard of that a pillar of the 1979 revolution, Hashemi Rafsanjani, has come out now in the opposition implicitly questioning the legitimacy of the Supreme Leader. Former President Mohammad Khatami, who received 24 million votes not long ago, has called for a referendum. So truly at the level of the political elite, there is unprecedented fissures.

I think what we should focus on and what would truly be devastating for Khamenei and Ahmadinejad would be fissures amongst the regime's security forces, namely the Revolutionary Guards. So far we haven't seen that, but the Revolutionary Guards are a very large entity, 120,000 men. And whereas the senior commanders are hand-picked by Khamenei, and they are going to likely remain loyal to him, the rank and file, both empirically and anecdotally, we have seen, are much more representative of Iranian society at large.

Also a word about the financial costs of this repression. It cost a lot of money to have a state of martial law, to have overflowing

prisons, to have communication blackouts, and to prevent Iranians from viewing satellite broadcasts from abroad. It is estimated that for the regime to jam the satellite broadcasts from Voice of America Persian Language Service and BBC Persian, it cost them several thousand dollars per minute. Multiply that over a 5-week period, and we see that the regime is truly bleeding tens of millions of dollars just to retain this level of repression.

Now a brief word on the implications for U.S. policy. I would first say that I believe President Obama's overtures have played a role in accentuating the deep internal divisions within Iran. A couple months ago I encountered a fairly senior conservative, pragmatic official, Iranian official, in the Middle East, who remarked to me that there is a lot of pressure now on hard-liners in Tehran to justify their enmity toward the United States. What he said to me, to paraphrase, is that if Iran can't make nice with Barack Hussein Obama, who is preaching mutual respect on a weekly basis, and sending us noerooz greetings, it is pretty obvious the problem lies in Tehran and not Washington. And I think the cleavages we have seen in the last 6 weeks, the Obama administration's initial overtures, I think, had played a role in that.

I do believe, however, that it is time to reassess U.S. policy post-election, and what I would argue is that we should not be thinking or talking about engagement yet. Just as we didn't want to intervene in Iran's internal affairs after the election by forcefully coming out in favor of the opposition, I think by prematurely engaging before the dust has settled in Tehran, we may implicitly endorse these election results, demoralize the opposition, and unwittingly tip the balance in favor of the hard-liners, namely Khamenei and Ahmadinejad. So I don't say renounce engagement, but let us hold off until the dust settles.

I believe—yeah. Okay. Just one last point, and that is that we shouldn't underestimate the magnitude of this moment. Iran is the only country in the Middle East in which if you hear about popular protests, it doesn't give you indigestion. You hear about popular protests in Saudi Arabia, Egypt, and Jordan, it is not a hopeful sign. And Iran certainly, as we have seen, these young people are agitating for greater political voice, greater economic freedoms, greater social freedoms. And they may not achieve this within the next weeks or months or even years, but we should appreciate the magnitude of what has transpired the last few weeks, and we should certainly try to pursue policies which don't deter this moment and do not alter its trajectory.

[The prepared statement of Mr. Sadjadpour follows:]

IRAN: RECENT DEVELOPMENTS AND IMPLICATIONS FOR U.S. POLICY

Karim Sadjadpour, Carnegie Endowment for International Peace

U.S. House Committee on Foreign Affairs

July 21, 2009

Chairman Berman and distinguished members of the committee:

The enormous cloud of suspicion hanging over Mahmoud Ahmadinejad's June 12th presidential victory has produced the greatest political and popular eruptions in Iran since the 1979 revolution. Members of the committee have surely seen the remarkable images and amateur videos—both heroic and harrowing--that have emerged from Iran over the past five weeks.

The United States now faces a unique challenge. After 30 years of not having official relations we finally prepared ourselves to recognize the legitimacy of an Iranian government, only to find that legitimacy has arguably been squandered. Today the Obama administration has the difficult task of reconciling when and how to deal with a disgraced regime which presents urgent national security challenges, while at the same time not betraying a popularly-driven movement whose success could have enormously positive implications for the United States.

I. Implications for Iran

The events of the last six weeks have had enormous implications for Iran. At a political level, the Islamic Republic of Iran has ceded any pretensions of being a Republic. Past Iranian governments didn't necessarily represent a wide swath of Iranian society, but they did encompass a fairly wide swath of the Iranian political elite. If the Ahmadinejad government maintains power, the country will be ruled by a small cartel of hardline clerics and nouveau riche Revolutionary Guardsmen who reflect not only a relatively narrow swath of Iranian society, but also a narrow swath of the political elite.

Along with the legitimacy of the Republic, another election casualty is the legitimacy of Iran's most powerful man, Supreme Leader Ayatollah Ali Khamenei. For two decades Khamenei had carefully cultivated an image of a magnanimous guide who stays above the political fray, allowing him to deflect responsibility for Iran's deepening economic malaise and political and social repression. Those days are now over. In defiantly supporting Ahmadinejad, Khamenei has exposed himself as a petty partisan. Formerly sacred red lines have been crossed as for the first time people have begun openly challenging Khamenei with chants of "marg bar dictator" i.e. death to the dictator.

Despite the popular outcry, Khamenei has refused to cede any ground, believing that compromise projects weakness and invites more pressure. Today his future rests largely in the hands of the regime's most elite fighting force, the 120,000 strong Revolutionary Guards. While growing fissures and dissent among senior clergy in Qom is certainly worrisome for Khamenei, dissent and fissures among top Revolutionary Guard

commanders would be fatal for him. While at the moment they seemingly remain loyal to him as their commander in chief, as the economic situation continues to deteriorate and popular outrage persists, their fidelity is not a given.

The popular implications have been equally enormous. At their peak the demonstrations in Tehran included as many as three million people—according to Tehran mayor Mohammed Bagher Ghalibaf, himself a former senior Revolutionary Guard commander—representing a diverse socio-economic swath of society, with women often at the forefront. While the scale of the demonstrations has subsided due to the regime's skilled use of repression, people's sense of injustice and outrage has not.

The more hardline elements of the bassij militia seem to truly relish violence. People are up against an ostensibly religious government that has shown no moral compunction, a government that murders an innocent 26-year-old woman, Neda Agha-Soltan, and then blames it on the BBC and CIA. Every time people take to the streets they're risking their lives, and the fact that thousands continue to do so is not insignificant. For every individual who took to the streets, there are likely hundreds if not thousands more at home who feel solidarity with them. Nightly protest chants of 'Allahu Akbar'—reminiscent of the 1979 revolution and meant to keep the momentum alive—have continued unabated.

The images and videos outside of Tehran have been similarly remarkable. In Isfahan—whose population is more traditional than that of Tehran—the demonstrators filled up the enormous Nagsh-e Jahan square, the largest historic square in the world. Similar protests have taken place in important cities like Shiraz, Tabriz, Mashad, and Kashan. In short, unrest has transcended age, religiosity, socio-economic status, gender, and geography.

One problem outside of Tehran, however, is that people are often less connected to the outside world via the Internet and satellite television, and have less access to technologies like video phones to document what's taking place. For this reason there's a lot of concern that the type of repression and human rights abuses that take place outside of the capital are much greater than that which has been documented only in Tehran alone. Outside of major cities the regime's repressive apparatus can act with impunity, and without accountability.

Nonetheless, the government's indiscriminate use of force and unwillingness to compromise has not forced the opposition into submission. Indeed, the current scale of repression has been both politically and financially costly for the regime. In the last week alone former Presidents Hashemi Rafsanjani—a founding father of the 1979 revolution—and Mohammed Khatami have challenged the legitimacy of the election, with the normally timid Khatami even calling for a popular referendum. Grand Ayatollah Montazeri, the most senior cleric in Iran, recently issued a fatwa stating that the Supreme Leader is no longer fit to rule, arguably the greatest verbal challenge to Khamenei's leadership in the last 20 years.

The opposition's primary challenge at the moment is that its leadership and brain trust is either imprisoned, under house arrest or unable to communicate freely. Despite the

tremendous popular outrage, at the moment there is no leadership to channel that outrage politically.

Still, the financial costs of maintaining martial law, overflowing prisons, and media and communications blackouts are significant for the government. According to European diplomats, the Iranian government incurs several thousand dollars per minute—tens of millions per week—to jam satellite television broadcasts from Voice of America and BBC Persian. Given the decline in oil prices, the current scale of repression will prove difficult to sustain for a long period.

II. Implications for U.S. policy

Before President Obama's inauguration last January, this author wrote that "In charting a new strategy toward Tehran, the Obama administration must first probe a seemingly simple but fundamental question: Why does Iran behave the way it does? Is Iranian foreign policy rooted in an immutable ideological opposition to the United States, or is it a reaction to punitive U.S. policies? Could a diplomatic U.S. approach beget a more conciliatory Iranian response?"

The Obama administration's unsuccessful attempts to try and change the tone and context of the long-fraught U.S.-Iran relationship, coupled with the events of the last 6 weeks, make it abundantly clear that Tehran's hardline leadership—particularly Ayatollah Khamenei—views an adversarial U.S.-Iran relationship as politically expedient.

Whereas the Bush administration unwittingly united Iran's disparate political factions against a common threat, the Obama administration's overtures accentuated the cleavages among Tehran's political elites. As one pragmatic conservative Iranian official noted to me several months ago, Tehran's hardliners were under newfound pressure to justify their hostility towards the United States: "If Iran can't make nice with a U.S. president named Barack Hossein Obama who is preaching mutual respect on a weekly basis and sending us noerooz greetings, it's pretty evident that the problem lies in Tehran, not Washington."

In light of the incredible events of the last six weeks, however, the Obama administration should reassess several aspects of its pre-election policy toward Iran:

- **Don't engage--Yet**

When the demonstrations were at their peak, the Obama administration prudently refrained from inserting the United States into Iran's internal political battles, for fear that we would taint those whom we aimed to help. We should continue to adhere to our policy of non-interference in Iran's internal affairs. By prematurely engaging—before the dust has settled—we run the risk of demoralizing the opposition and the millions of people who took to the streets and who continue to reject the legitimacy of the Ahmadinejad government ("death to Russia"); we implicitly endorse an election that is still being hotly

contested in Tehran and tip the balance in favor of the hardliners.

While the costs of engagement in the short-term are very high, the benefits of immediate engagement are negligible. Tehran is still in disarray and Iranian officials have not shown any indication that they're prepared or capable of making the types of compromises necessary to reach an accommodation with the U.S. when it comes to the nuclear issue or the Palestinian-Israeli conflict.

Engagement is not a policy in itself, but rather a tool that seeks, among other things, to curtail Iran's nuclear ambitions and moderate its regional policies. Premature engagement, however, could have precisely the opposite effect, by sending the signal to Tehran that its nuclear program is of such paramount importance to Washington that it can act with impunity. Iran would not be incentivized to limit its nuclear ambitions, but rather to expand them.

Pausing engagement until the dust has settled in Tehran does not mean renouncing it altogether. Given Iran's sizeable influence on several key U.S. foreign policy challenges--namely Afghanistan, Iraq, the Arab-Israeli conflict, nuclear proliferation, energy security, and terrorism—shunning Iran is not a long-term option.

- **Military threats aren't constructive**

If the events of the last six weeks prove one thing, it's that the Iranian regime is not suicidal. On the contrary it ruthlessly clings to power, and calibrates its actions accordingly. The Iranian regime, in other words, is odious but deterrable.

Indeed the problem we have with Iran has far more to do with the character of the regime than their nuclear program. The reality is that as long as Khamenei, Ahmadinejad and company are in power, we're never going to reach a modus which sufficiently allays our concerns —and Israel's— about Iran's regional and nuclear ambitions.

Based on both recent and historical precedent, there's good reason to believe that not only would Khamanei and Ahmadinejad not be cowed by military threats, but that they would actually welcome U.S. or Israel strikes in order to try and achieve the same outcome as Saddam Hussein's 1980 invasion of Iran—namely, to unite squabbling political factions against a common threat and keep agitated Iranian minds busy with foreign quarrels.

Ahmadinejad will also attempt to draw the United States into a war of words; we would be wise to ignore him. The Obama administration should continue to project the dignity and poise of a superpower rather than reciprocate the diatribes of an oppressive and undemocratic regime.

- **Condemn human rights abuses**

The Obama administration should not refrain from condemning the Iranian government's flagrant violence against its own citizenry and wrongful detention of political prisoners. While the regime claims only a few dozen have been killed and a few hundred imprisoned, European embassies in Tehran and independent human rights groups estimate that several thousand have been imprisoned and several hundred killed. Recent history has shown that outside pressure and condemnation works, as the regime incurs no costs for its egregious human rights abuses when the world remains silent.

- **Don't underestimate the magnitude of this moment**

In an atmosphere of repression and intimidation millions of Iranians throughout the country, representing a diverse swath of society, have taken to the streets since June 12th, agitating for greater political freedoms which many of us take for granted. Having endured a repressive religious autocracy for the last 30 years, Iran is arguably the only country in the Muslim Middle East in which popularly driven change is not of an Islamist, anti-American variety.

While the type of change Iranians seek may continue to prove elusive for months, if not years, we should not underestimate the size, strength, maturity, and resolve of this movement, nor its enormous implications. While this movement must be driven by Iranians themselves, it should remain a U.S. foreign policy imperative not to do anything to deter its success or alter its trajectory. Just as Iran's 1979 revolution dramatically impacted world affairs, so could the emergence of a more moderate, democratic Iranian government at peace with its neighbors and the outside world.

Chairman BERMAN. Thank you very much.

And now our final witness, Professor Kittrie.

STATEMENT OF ORDE F. KITTRIE, J.D., PROFESSOR OF LAW, ARIZONA STATE UNIVERSITY, CO-DIRECTOR, IRAN ENERGY PROJECT, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. KITTRIE. Chairman Berman, Ranking Member Ros-Lehtinen, distinguished members of the committee, thank you for the opportunity to speak with you today. I have been asked to focus on how to use sanctions to leverage the economic vulnerability to which Dr. Clawson and others referred.

Disappointingly, the Obama administration's outstretched hand has thus far been met with a clenched Iranian fist. Until now that outstretched American hand has been accompanied by the maintenance of existing sanctions. Congressional sanctions bills have, as the chair said, served as a kind of sword of Damocles, hanging high over the head of the Iranian regime. Yet Iran's nuclear power has raced forward, and Iran's leadership has continued to insist there are no incentives that could induce it to halt or even meaningfully limit its nuclear program.

It has become increasingly clear if the Iran regime is going to be peacefully persuaded to halt its illegal nuclear program, we will first need to change its cost-benefit calculus. In light of this and the regime's brutal measures to crush the postelection protests, it is time both to increase the weight of the sword of Damocles hanging over the Iranian regime's head and to begin lowering the sword.

In a moment I will suggest some ways in which the sanctions threat to Iran can be increased and made more imminent, but first a threshold question: Can strong sanctions really contribute to stopping an illicit nuclear weapons program? The answer is yes. For example, strong U.N. Security Council sanctions were a pivotal factor in inducing Libya's Government to allow British and American Government experts to enter Libya and completely dismantle its WMD infrastructure by April 2004. As the ranking member said, that should be our goal with regard to Iran.

In addition, it was discovered in the wake of the United States occupation of Iraq, too late unfortunately, that strong U.N. Security Council sanctions had helped destroy Iraq's nuclear weapons program and prevent Saddam Hussein from restarting it between the Gulf War in 1991 and the coalition occupation of Iraq in 2003. However, the sanctions imposed on Iran by the international community thus far are much weaker than the sanctions that helped stop the Libyan and Iraqi nuclear weapons program. The Security Council's Iran sanctions are still far to weak to, A, persuade Iran's leadership that the benefits of proceeding with its nuclear program are outweighed by the sanctions costs of proceeding with it; to, B, meaningfully contain Iran's nuclear program; or, C, deter other countries that are watching from someday following Iran's lead. That is unfortunate, because Iran's heavy dependence on foreign trade leaves it potentially highly vulnerable to strong economic sanctions.

The following are some ways in which Congress could both increase and make more imminent the sanctions to Iran. Number

one, I urge the committee to do what it takes to position the Iran Refined Petroleum Sanctions Act for immediate enactment if no significant progress is made by the time of the G–20 summit meeting. If I understood correctly, the chair just announced for the first time that he sees early fall as a time frame for an IRPSA markup, and I commend him for that sharpening of his timeline.

Number two, Congress can and should in the meantime continue its smaller steps to squeeze Iran's suppliers of refined petroleum and other strategic goods. Steps such as encouraging the executive branch and governments at the State and local level to use their own discretion and market power to put Iran's key suppliers to a business choice between the United States governmental and Iranian markets.

Number three, while IRPSA is an excellent bill, a cut-off of Iran's refined petroleum supplies may not be sufficient to convince the Iranian regime that the benefits of its nuclear program are outweighed by the sanctions costs of proceeding with the program.

There are a number of provisions in other Iran sanctions bills that I urge be passed alongside IRPSA. I list them all in my written statement. These additional provisions include, and I will highlight just a few, first, provisions that would cut off most remaining direct United States trade with Iran. According to recent reports by the Associated Press and other sources, the United States had $685 million in exports to Iran in 2008. That is an 80-fold increase over the $8 million in United States exports to Iran in 2001. An 80-fold increase. It will be harder for the United States to convince Europe to put stronger sanctions on Iran if the United States does not itself stop trading directly with Iran. President Clinton had in 1995 banned essentially all U.S. trade with Iran; however, the U.S. had in 1999 and 2000, in a gesture to the relatively moderate Khatami, eased the trade ban. The United States should reclose these exceptions to direct trade with Iran.

Another step, another provision, that should be added or passed alongside, provisions such as those in H.R. 1327 that would encourage and facilitate State and local divestment from companies doing business with Iran; and finally, provisions such as those in the ranking member's H.R. 1208 that would strongly discourage and reduce the transshipment of sensitive goods to Iran through third countries.

In conclusion, the United States' considerable leverage of Iran's suppliers of refined petroleum and other strategic goods may mean that aggressive unilateral sanctions could have a dispositive impact on Iran's economy and thus its nuclear program. In the face of persistent Russian, Chinese, and European reluctance to impose strong sanctions on Iran, creative and aggressive U.S. unilateral sanctions may turn out to be our last best hope for peacefully convincing Iran that the cost of its nuclear program is too high.

Thank you.

[The prepared statement of Mr. Kittrie follows:]

Testimony

Orde F. Kittrie, Esq.

Professor of Law, Arizona State University

Co-Director, Iran Energy Project, Foundation for Defense of Democracies

Before the U.S. House of Representatives Committee on Foreign Affairs

Regarding

Iran: Recent Developments and Implications for U.S. Policy

July 22, 2009

Chairman Berman, Ranking Member Ros-Lehtinen, and distinguished members of the Committee, thank you for the opportunity to speak with you today.

I have been asked to focus on Iran's vulnerability to current and potential U.S.-imposed and internationally imposed sanctions. Disappointingly, the Obama Administration's outstretched hand has thus far been met with a clenched Iranian fist. Until now, that outstretched American hand has been accompanied by the maintenance of existing sanctions and the threat that if Iran does not negotiate constructively, sanctions will be increased. Congressional sanctions bills -- including several excellent bills introduced by Chairman Berman, Ranking Member Ros-Lehtinen, Congressman Sherman, and other Members of this Committee – have served as a kind of Sword of Damocles hanging over the head of the Iranian regime.

Secretary Clinton told this Committee exactly three month ago today that "by following the diplomatic path we are on, we gain credibility and influence with a number of nations who would have to participate in order to make the sanctions regime as tight and as crippling as we would want it to be." There was also a desire to not jeopardize engagement by sending a strongly adversarial opening signal to the Iranians. These are important goals, and that particular diplomatic path was the right one to take under the circumstances.

In the course of these last three months, Iran's nuclear program has raced forward, and Iran's leadership has continued to insist there are no incentives that could induce it to halt or even meaningfully limit its nuclear program. It has become increasingly clear that if the Iranian regime is going to be peacefully persuaded to halt its illegal nuclear program,[1] we will first need to change its cost-benefit calculus. The Iranian regime's

[1] The United Nations Security Council, in its Resolution 1737 of December 2006, explicitly ordered Iran to "without further delay suspend . . . proliferation sensitive nuclear activities," including "all enrichment-related and reprocessing activities" and "work on all heavy water-related projects," and "provide such access and cooperation as the IAEA

recent particularly flagrant abuses of human rights, coupled with its accelerating nuclear program and longstanding support for terrorism, have lost it sympathy in many nations and made it even clearer than it was before that this regime is not going to obey the law for the law's sake. Sadly, this is an offender that will only obey the law when it believes the cost of violation exceeds its benefits.

In light of this, and the regime's brutal and repressive measures to crush the post-election protests, it is time both to increase the weight of the Sword of Damocles hanging over the Iranian regime's head and begin lowering the sword. This does not mean we should stop talking to the Iranians. Nor does it mean that we should either take existing incentives off the table or refuse to consider even more enticing incentives. It does mean that we cannot continue to rely on an outstretched hand, incentives and the current level of sanctions. In a moment, I will suggest some ways in which the sanctions threat to Iran can be increased and made more imminent.

But first, a threshold question: Can strong sanctions really contribute to stopping an illicit nuclear weapons program? Yes, the international community has learned in recent years that strong sanctions can contribute to stopping illicit nuclear weapons programs.[2] For example, strong UN Security Council sanctions were an important factor in inducing Libya's government both to forsake terrorism and completely and verifiably relinquish its nuclear, chemical, and biological weapons programs.[3] As a result, Libya allowed a team of British and American government experts to enter Libya and completely dismantle its WMD infrastructure by April 2004. That should be our goal with regard to Iran. In addition, it was discovered, in the wake of the U.S. occupation of Iraq, too late unfortunately, that strong UN Security Council sanctions had destroyed Iraq's nuclear weapons program and succeeded in preventing Saddam Hussein from restarting it between the Gulf War in 1991 and the coalition occupation of Iraq in 2003.[4]

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requests to be able to verify" these suspensions and "to resolve all outstanding issues." Rather than comply with this legally binding Security Council mandate, Iran has persisted in openly and admittedly accelerating its enrichment-related and other prohibited activities. In its June 5, 2009 report, the International Atomic Energy Agency (IAEA), an arm of the United Nations, stated that Iran "has not suspended its enrichment related activities or its work on heavy water related projects as required by the Security Council" and, "contrary to the request of the [IAEA] Board of Governors and the requirements of the Security Council," Iran continues to refuse access and cooperation deemed necessary by the IAEA to address "the possibility of military dimensions to Iran's nuclear programme." Iran's nuclear program is thus flatly in violation of international law not just according to the Bush and Obama Administrations according to the UN.

[2] Readers interested in a more detailed discussion of these and other precedents for strong sanctions stopping nuclear programs may wish to refer to Orde F. Kittrie, *Averting Catastrophe: Why the Nuclear Nonproliferation Treaty is Losing Its Deterrence Capacity and How to Restore It*, 28 MICH. J. INT'L L. 337 (2007).

[3] See, e.g., GARY CLYDE HUFBAUER, JEFFREY J. SCHOTT, KIMBERLY ANN ELLIOTT AND BARBARA OEGG, ECONOMIC SANCTIONS RECONSIDERED (3rd ed.) 12-13 (2007)("[T]he surprise decision by Libyan President Muammar Gadhafi in 2003 to renounce weapons of mass destruction was partly influenced by his desire to end the decade-old U.S. sanctions and to gain access to American oil field technology and know-how.")

[4] See Central Intelligence Agency, COMPREHENSIVE REPORT OF THE SPECIAL ADVISOR TO THE DCI ON IRAQ'S WEAPONS OF MASS DESTRUCTION (Sept. 30, 2004 and March 2005 addenda), available at http://www.gpoaccess.gov/duelfer; George A. Lopez & David Cortright, *Containing Iraq: Sanctions Worked*, FOREIGN AFF., July/Aug. 2004; GARY CLYDE HUFBAUER, JEFFREY J. SCHOTT, KIMBERLY ANN ELLIOTT AND BARBARA OEGG, ECONOMIC SANCTIONS RECONSIDERED (3rd ed.) 12 (2007)("UN-authorized sanctions denying Saddam Hussein unlimited access to Iraq's oil revenues, coupled with the periodic use of force, provided UN inspectors with enough leverage to find and destroy Iraq's stockpiles and facilities for producing chemical, biological, and nuclear weapons. These accomplishments were not fully revealed, however, until after the US invasion of Iraq in 2003.")

However, the sanctions imposed on *Iran* by the international community thus far are much weaker than the sanctions that helped stop the Iraqi and Libyan nuclear weapons programs. Indeed, the Iran sanctions are weaker than the arms embargo imposed by the Security Council on Liberia[5] during its civil war, the arms and petroleum embargo imposed on Sierra Leone in response to its May 1997 military coup,[6] the complete embargo imposed on the Federal Republic of Yugoslavia during the Bosnian crisis,[7] and the complete embargo imposed on Haiti in response to its 1991 military coup.[8]

In contrast, the entirety of UN Security Council sanctions on Iran thus far consist only of the following: 1) UN members have been ordered to stop supplying Iran with certain specified nuclear and ballistic missile items and technology; 2) a freeze of overseas assets of a couple dozen named Iranian officials and institutions; 3) a ban on the export of arms by Iran; and 4) a ban on overseas travel of a handful of Iranian officials.[9] Such sanctions are far too weak to a) persuade Iran's leadership that the benefits of proceeding with its nuclear program are outweighed by the sanctions cost of proceeding with the program, b) meaningfully contain Iran's nuclear program, or c) deter other countries from someday following Iran's lead.

That is unfortunate, because Iran's heavy dependence on foreign trade leaves it potentially highly vulnerable to strong economic sanctions.

Why are the Security Council sanctions on Iran so weak? In considerable part because Russia and China have used their vetoes over Security Council sanctions to protect their lucrative trade with Iran. Europe has played a more constructive role, but could do much better. Europe supplies one-third of Iran's imports (including a high proportion of Iran's sophisticated machinery needs and some 30 percent of Iran's total

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[5] See, e.g., Security Council Resolution 1521 (Dec. 22, 2003) (prohibiting provision to Liberia of "arms and related materiel of all types," barring "direct or indirect import of all rough diamonds from Liberia," and banning import of all "timber products originating in Liberia").

[6] See, e.g., Security Council Resolution 1132 (Oct. 8, 1997) (banning travel by members of the Sierra Leone military junta, and prohibiting "the sale or supply to Sierra Leone ... of petroleum and petroleum products and arms and related materiel of all types").

[7] See, e.g., Security Council Resolution 713 (Sept. 25, 1991) (imposing a "general and complete embargo on all deliveries of weapons and military equipment to Yugoslavia"); Security Council Resolution 757 (May 30, 1992) (prohibiting all imports from the Federal Republic of Yugoslavia (FRY) and all exports, except medicine and certain foodstuffs, to the FRY; barring provision of funds to government, commercial undertakings, and persons of and within the FRY; prohibiting all aircraft travel to and from the FRY; suspending scientific, technical, cultural, and sports exchanges with the FRY); Security Council Resolution 820 (Apr. 17, 1993) (prohibiting provision in relation to the FRY of all except certain services and freezing foreign assets of government and commercial undertakings of the FRY).

[8] See, e.g., Security Council Resolution 841 (June 16, 1993) (prohibiting the sale or supply to Haiti of "petroleum or petroleum products or arms and related materiel of all types"; freezing foreign assets of Haiti's government); Security Council Resolution 917 (May 6, 1994) (banning travel by Haitian coup participants, military, police, and their immediate families; prohibiting all imports from Haiti; prohibiting all exports to Haiti except medicines, food, and informational materials).

[9] See Security Council Resolution 1737 (December 27, 2006); Security Council Resolution 1747 (March 24, 2007); Security Council Resolution 1803 (March 3, 2008).

gasoline).[10] If Europe were to impose a comprehensive or well-targeted embargo on Iran, it might quickly succeed in coercing Iran to cease its nuclear weapons program. The EU exported about $15 billion worth of goods to Iran in 2008 (led by Germany's $5.7 billion in exports to Iran, a ten percent increase over 2008). According to one estimate, some two-thirds of Iranian industry relies on German engineering products. Iranians reportedly distrust Chinese and especially Russian industrial equipment because it is neither cutting-edge nor reliable. Although vital for Iran, exports to Iran are less than one percent of the EU's total worldwide trade and represent a total of less than $3 billion in annual profit to the EU. Despite this relatively cheap price there is currently no sign that the EU plans to impose such vigorous additional sanctions against Iran. There is even less hope of the Security Council doing so.

Congress can increase U.S. leverage over Iran by putting these foreign countries and companies that keep the Iranian economy afloat to a business choice, a choice between doing business with Iran and doing business in the United States. The U.S. Treasury has successfully put foreign banks to such a choice, convincing more than 80 banks, including most of the world's top financial institutions, to cease all or some of their business with Iran.

The result has been increased pressure on the Iranian regime. For example, in November 2008, a group of 60 Iranian economists called for the regime to drastically change course, saying that President Ahmadinejad's "tension-creating" foreign policy has "scared off foreign investment and inflicted heavy damage on the economy."[11] During (and after) the recent Iranian presidential campaign, Ahmadinejad's opponents blamed him and the sanctions engendered by his combative foreign policy for the country's economic woes. Additional sanctions could contribute to reaching a tipping point at which Iran's ruling regime may decide the benefits of proceeding with its nuclear program are outweighed by the sanctions cost of proceeding with the program.

The following are some ways in which Congress could both increase and make more imminent the sanctions threat to Iran:

1) The Iran Refined Petroleum Sanctions Act (IRPSA) -- introduced by the Chair, the Vice Chair, the Ranking Member, and several other leaders of this Committee -- is an excellent bill, likely to have a significant impact on the handful of foreign companies that provide Iran with some 40 percent of its gasoline. These companies have in recent months reportedly included Vitol (a Swiss/Dutch firm), Trafigura (Swiss/Dutch), Reliance Industries (Indian), Total (French), and occasionally Glencore (Swiss) and Shell (Dutch).[12] Since U.S. energy companies are already prohibited from selling fuel to Iran,

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[10] European Commission Bilateral Trade Relations: Iran, http://ec.europa.eu/trade/issues/bilateral/countries/iran/index_en.htm.

[11] Borzou Daragahi, "Economists in Iran Criticize Ahmadinejad," *Los Angeles Times*, Nov. 10, 2008, at A3.

[12] The Energy Information Administration of the United States Department of Energy states as follows in a report, dated February 2009, which was available on its website at http://www.eia.doe.gov/cabs/Iran/Oil.html as of July 21, 2009: "Large, multinational wholesalers such as BP, Reliance, Total, Trafigura, and Vitol provide Iran with gasoline." Several trade publications list Vitol, Trafigura, Total, and Reliance as the leading suppliers of gasoline to Iran as of April and May 2009, with BP having dropped off, Reliance back on the list following a two month hiatus, and occasional references to Glencore and Shell. See Paul Sampson, "Iran Opposition Calls for Oil Flow Halt,"

it should not be hard for lawmakers to back legislation that keeps these foreign suppliers from continuing to pick up that business.

If IRPSA is enacted, Iran will likely have to respond by rationing fuel, a step the BBC has called "dangerous" for the government of "an oil-rich country like Iran, where people think cheap fuel is their birthright and public transport is very limited."[13] Squeezing Iran's gasoline imports would remind the Iranian people that instead of choosing to invest in improving refining capacity to meet Iran's growing demands, the Iranian government has chosen to invest in a nuclear program that is contrary to international law, economically inefficient, and has resulted in five condemnatory Security Council resolutions, international isolation, and various sanctions targeting Iran.

Having once served as a Congressional aide myself, I know that the legislative process takes time, especially during August. President Obama recently said that "we will take stock of Iran's progress" at the time of the G-20 summit meeting on September 24-25. French President Sarkozy stated that decisions on a next round of Iran sanctions will be made at the G-20 summit. Over the last eight years, Iran has crossed one redline or deadline after another without paying any price. This time must be different. I urge the Committee to do what it takes to position this bill for immediate enactment if no significant progress is made by the time of the G-20 summit meeting. I urge the Committee also to encourage the Executive Branch to lay the groundwork, to put in place the necessary interagency mechanisms, and begin collecting relevant data, so that when

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International Oil Daily, June 23, 2009 ("If there is no letup in the bloodshed, pressure could grow on companies such as India's Reliance and Swiss trading duo Vitol and Trafigura to stop supplying gasoline to Iran, while US lawmakers are stepping up calls for sanctions targeting Iran's products imports."); Paul Sampson, "Reliance Risks US Backlash With Iran Sales," International Oil Daily, June 9, 2009 ("Reliance is one of around half a dozen companies supplying Iran with gasoline. So far this year, the two largest have been Swiss traders Trafigura and Vitol, which both use ports in the United Arab Emirates from which to transship most of their cargoes. More sporadic shipments come from Total and Glencore."); Paul Sampson, "Iran Dismisses US Gasoline Sanctions Threat," International Oil Daily, May 6, 2009 ("Right now, there are around half a dozen suppliers of gasoline to Iran, which currently imports about 140,000 barrels per day of the product, mostly from the United Arab Emirates. So far this year, the two biggest suppliers have been Switzerland-based traders Vitol and Trafigura, while Glencore and French oil major Total also feature on the list. India's Reliance Industries has returned to the scene after a break of several months; shipping sources say India's biggest private-sector company supplied at least three 35,000 ton cargoes in April from its giant Jamnagar refinery in northwest India."); Amber Corrin, "U.S. Congress Eyes Sanctions on Iran Petroleum Suppliers," Global Refining & Fuels Report, May 6, 2009 ("Iran's main gasoline suppliers include Vitol (Switzerland/The Netherlands), Trafigura (Switzerland), Total (France), Reliance Industries (India), Glencore (Switzerland) and Shell (The Netherlands)."); Daniel Goldstein, "Iran facing further energy isolation from US," Platts Oilgram News, May 4, 2009 ("Companies providing gasoline to Iran include the Swiss-Dutch firm Trafigura, India's Reliance Industries, Switzerland's Glencore, and oil major Total."); Paul Sampson, "Matching House Move, Senators Target Iran's Gasoline Imports," Oil Daily, April 30, 2009 ("Iran, which now imports up to 140,000 barrels per day of gasoline to meet domestic demand, has relied on a small number of suppliers this year. The two largest are Swiss traders Vitol and Trafigura , while Total and Glencore have chipped in with the occasional cargo."); Paul Sampson, "Bipartisan Group of US Lawmakers Targets Iran's Gasoline Imports," Oil Daily, April 24, 2009 ("According to Gulf shippers, the biggest supplier of gasoline to Iran in March was Swiss trader Vitol, which supplied at least six cargoes, with French major Total and Swiss-Dutch firm Trafigura delivering most of the rest."); Samuel Ciszuk, "U.S. Legislators Target Gasoline Imports in Suggested New Sanctions Against Iran," Global Insight, April 23, 2009 ("Iran's main gasoline providers are Dutch/Swiss traders Vitol and Trafigura, Swiss Trader Glencore, and supermajors Total and BP.") The gasoline trade with Iran is relatively opaque. The most current publicly available information on who is selling gasoline to Iran is generally to be found in trade press reports, which are often sourced to anonymous oil traders. These reports can be difficult to confirm independently. For that reason, the U.S. government should make sure that it has the most current, accurate information before it sanctions or otherwise applies pressure on companies thought to be selling gasoline to Iran.

[13] "Iran Fuel Rations Spark Violence," BBC News, June 27, 2007.

IRPSA and any other sanctions bills are passed, the Executive Branch is ready to implement them.

2) Congress can and should, in the meantime, continue its smaller steps to squeeze Iran's suppliers of refined petroleum and other strategic goods. Steps such as:

a) Enacting the provision, introduced by Representatives Kirk and Sherman and included in the House Foreign Operations Appropriations Act, that would prohibit the U.S. Export-Import Bank from providing loan guarantees to Iran's suppliers of gasoline and other refined petroleums.

b) Holding hearings to shine a spotlight on Iran's providers and question whether they are doing business with the Iranian Revolutionary Guard Corps (IRGC) or other sanctioned entities. Also, encouraging the Executive Branch to determine whether any of Iran's suppliers of refined petroleum and other strategic goods are doing business with the IRGC or other sanctioned entities, and thus subject to sanction themselves on that basis. Given recent events in Iran, Iranian whistleblowers may now be willing to come forward with such information. Such scrutiny would, at a minimum, put Iran's suppliers on notice that they are assuming a significant risk in conducting this business, the risk of providing fuel to Iranian organizations and individuals designated as terrorist entities by the U.S. government. As my colleague Mark Dubowitz recently put it: "Fairly or not, Iranians and others may come to believe that these companies are fuelling the armored vehicles and motorcycles used to brutally repress those standing for freedom on the streets of Tehran."[14]

c) Encouraging the Executive Branch and governments at the state and local level to use their own discretion and market power to ask their major contractors and loan beneficiaries whether their foreign arms are doing business with Iran and, if so, to put such companies to a business choice between the U.S. governmental and Iranian markets. Earlier this year, the Department of Energy chose to purchase oil for the Strategic Petroleum Reserve from Vitol, Iran's leading supplier of gasoline, and Shell.[15] Los Angeles International Airport reportedly continues to buy some $600 million a year

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[14] Mark Dubowitz, "Hitting Tehran Where it Hurts," Wall Street Journal (Europe), July 14, 2009.

[15] On February 27, 2009, seven Representatives, including several leading members of this Committee, sent a letter to U.S. Secretary of Energy Stephen Chu calling for the contract to be reconsidered. DOE has since determined that the contract with Vitol was viable and would be completed, though Secretary Chu promised that future contracts with the Swiss firm would undergo "hard review." Ian Talley, "DOE Says Vitol's Contract to Fill Petroleum Reserve Is Viable," *Wall Street Journal*, Apr. 30, 2009, and Ian Talley, "US Energy Secy: Future Dealings With Vitol To Undergo Hard Review," *Wall Street Journal*, May 1, 2009. Secretary Chu's promise that future dealings with Vitol would undergo a "hard review" sent a message to Iran's suppliers that there is a cost to their continued business dealings with Tehran. However, as of June 2009, there was no indication that Chu's statement had deterred Vitol from continuing to supply gasoline to Iran. See, e.g., Paul Sampson, "Iran Opposition Calls for Oil Flow Halt," International Oil Daily, June 23, 2009 ("If there is no letup in the bloodshed, pressure could grow on companies such as India's Reliance and Swiss trading duo Vitol and Trafigura to stop supplying gasoline to Iran, while US lawmakers are stepping up calls for sanctions targeting Iran's products imports."); Paul Sampson, "*Reliance Risks US Backlash With Iran Sales,*" *International Oil Daily, June 9, 2009* ("Reliance is one of around half a dozen companies supplying Iran with gasoline. So far this year, the two largest have been Swiss traders Trafigura and Vitol, which both use ports in the United Arab Emirates from which to transship most of their cargoes.").

of jet fuel from Vitol.[16] The Los Angeles Metro Transit Authority is reportedly going to vote this week on whether to open the bidding to Siemens for a $300 million contract to make rail cars for the LA subway[17] (according to the Wall Street Journal, Siemens provided the Iranian regime with sophisticated equipment for spying on its citizens[18]). Congressman Sherman is among those leading the fight against Siemens. This is all important, indeed potentially pivotal, leverage. One key reason why the Iranian people so often blame the results of Treasury's financial measures on the Iranian regime rather than the U.S. government is that there has not been one large-scale U.S. government action on which the Iranian government could focus public ire. Instead, as with the parable of the frog in the pot, Treasury actions have turned up the heat gradually, leading one European bank one week to quietly curtail its presence in the Iranian market then another the next week, and so forth. It may, to the extent possible, be best to try to replicate this effect with Iran's gasoline suppliers, with the U.S. federal, state and local governments, taking a relatively low public profile, persuading one energy company one week to halt supplies to Iran then another the next week, and so forth. Should an interagency working group identify sufficient, existing executive branch leverage over Iran's gasoline suppliers, the suppliers could be quietly persuaded to exit the market without the need for passage and enactment of legislation which might provide the Iranian government with a bit more of a rallying cry.

3) While IRPSA is a potent bill that will significantly increase the cost to Iran's regime of proceeding with its nuclear program, a cutoff of Iran's refined petroleum supplies may not be sufficient to convince the Iranian regime that the benefits of its nuclear program are outweighed by the sanctions costs of proceeding with the program. There are a number of provisions in other Iran sanctions bills that I urge be passed alongside IRPSA – to help put Iran's regime over its tipping point. Consideration should be given to writing the provisions so as to enable the Administration to maximize its leverage by implementing them in a graduated manner, perhaps tied to detectable additional Iranian steps towards a nuclear arsenal, should they occur, or Iranian failure to meet future deadlines.[19] These additional provisions include:

a) Provisions that would cut off most remaining direct U.S. trade with Iran. According to recent reports by the Associated Press and other sources, the U.S. had

[16] In an April 27, 2009 press release, Vitol stated that Los Angeles International "airport consumes about 38 million barrels (1.6 billion gallons) of jet fuel per year" and "PFTC, a wholly owned subsidiary of Vitol Inc., supplied around 20 percent of that volume in 2008." See http://vitolnews.blogspot.com/; http://www.reuters.com/article/pressRelease/idUS224594+27-Apr-2009+MW20090427. Thus Vitol supplied about 7.6 million barrels of jet fuel to Los Angeles International Airport in 2008. In mid-June 2009, the price of jet fuel, as noted at the website of the International Air Transport Association (IATA), was $78.90 per barrel. See http://www.iata.org/whatwedo/economics/fuel_monitor/index.htm. The Los Angeles International Airport jet fuel deal was thus worth about $600 million a year to Vitol at that price.

[17] Dan Weikel, "MTA takes issue with potential contractor's ties with Iran," L.A. Times, July 17, 2008.

[18] Christopher Rhoads and Loretta Chao, "Iran's Web Spying Aided By Western Technology," Wall Street Journal, June 22, 2009, at http://online.wsj.com/article/SB124562668777335653.html.

[19] See KENNETH M. POLLACK ET AL, WHICH PATH TO PERSIA? OPTIONS FOR A NEW AMERICAN STRATEGY TOWARD IRAN 31-41 (Brookings: June 2009).

$685 million in exports to Iran in 2008 and about $100 million in imports from Iran.[20] If the United States is going to take pressure off the Ahmadinejad regime by ensuring that the Iranian people have enough bread to eat, the U.S. could insist on some concessions in return, including at least an assurance that the Iranian people will be told of the U.S.'s friendly gesture towards them. Unfortunately, the Bush Administration apparently received no reciprocal concessions from Iran. Iran's nuclear program has accelerated since the wheat sales began in mid 2008 (due to a drought in Iran). Meanwhile, rather than thanking the United States, the Iranian government, through its Agriculture Jihad Ministry, is denying it is "buying even one kilogram of wheat directly from America."[21] In addition, it will be harder for the United States to convince Europe to put stronger sanctions on Iran if the United States does not itself stop trading directly with Iran. President Clinton had in 1995 banned essentially all U.S. trade with Iran. However, the U.S. had in 1999 and 2000, in a gesture to the relatively moderate Iranian President of that time, Khatami, eased the trade ban to allow U.S. commercial sales of food to Iran and exports from Iran to the U.S. of Iranian nuts, dried fruits, carpets and caviar. An Associated Press article last year described the seventeen-fold increase in U.S. trade with Iran during the Bush Administration.[22] A senior Bush Administration official who was at that time working on outreach to Europe regarding Iran told me that the information contained in this article on U.S. trade with Iran, which was picked up in many European newspapers, did tremendous damage to U.S. efforts to convince Europe to tighten European sanctions on Iran. The U.S. should re-close these exceptions to direct trade with Iran.

b) Provisions, such as those in H.R. 1327, that would encourage and facilitate state and local divestment from companies doing business with Iran.

c) Provisions that would prevent, or at least strongly discourage and reduce, the transshipment, reexportation, or diversion to Iran through third countries of sensitive goods, services or technology.

d) Provisions, such as those in H.R. 2375, that would invigorate the application of sanctions against IRGC supporters and affiliates. It has also been suggested that sanctions target Iran's *bonyads*, charitable organizations that control as much as half of Iran's economic activity and are known for their endemic corruption, which serves as a critical source of graft for

[20] Sharon Theimer, "Iran Buying More from U.S. in Spite of Tensions," Associated Press Financial Wire, June 21, 2009; "In 2008, Iran Bought Much More from U.S.; U.S. Bought Much Less from Iran," Iran Times International, March 20, 2009.
[21] See articles at http://www.iranvne.com/en/floater_article/1/5031 and http://www.payvand.com/news/08/oct/1004.html.
[22] Sharon Theimer, "From Bull Semen to Bras, Iran Still Buys American Products," Associated Press, July 9, 2008, available at, e.g., http://www.heraldextra.com/content/view/272636/36/ .

various regime officials.[23] According to a recent Brookings study, sanctioning the *bonyads* would not only hit at institutions of importance to the regime but "would also take aim at organizations widely loathed by the Iranian people."[24]

e) Provisions, such as those in H.R. 1208, that would strengthen and clarify the existing provisions of the Iran Sanctions Act.

f) Provisions that would discourage insurance companies from insuring sensitive shipments to Iran. Were such legislation enacted, it would be harder for refined petroleum shipments to reach Iran's shores even if suppliers were willing to continue selling refined petroleum to Iran. If the insurers – many of which are based in Britain, Germany and other allied countries – were willing to continue insuring shipments despite the U.S. legislation, they would almost certainly demand an increased political risk premium, leading to higher costs for Iran.[25]

g) Both section 201 of H.R. 1400, which passed the House last Congress by a vote of 397-16, and section 104 of S. 3445, the Dodd bill in the last Senate that was the Senate's most refined Iran sanctions bill, included provisions that would make U.S. parent companies liable for actions by their foreign subsidiaries that, if committed by the parent, would violate U.S. sanctions on Iran. There continue to be news reports of such foreign subsidiaries of U.S. companies engaging in business transactions with Iran. If engagement fails, cutting off such transactions would a) be an important additional means of putting pressure on Iran and b) prevent such transactions from making a mockery of U.S. sanctions on Iran and making it easy for foreign countries and companies to say "I see U.S. companies still doing business with Iran why should we stop."

In crafting some of these provisions, Congress will have to balance the merits of sanctions that allies consider to be extraterritorial applications of U.S. law against the need to win support from those allies for further multilateral sanctions. However, our allies have already failed for years to adopt strong sanctions against Iran and it is now crunch time, with Iran's nuclear program and probably the entire nuclear nonproliferation regime at a tipping point. The U.S.'s considerable leverage over Iran's suppliers of refined petroleum and other strategic goods may mean that aggressive unilateral sanctions could have a dispositive impact on Iran's economy and thus its nuclear program. In the face of persistent Russian, Chinese and European reluctance to impose strong sanctions on Iran, aggressive U.S. unilateral sanctions may turn out to be our last, best hope for peacefully convincing Iran that the cost of its nuclear program is too high.

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[23] KENNETH M. POLLACK ET AL, WHICH PATH TO PERSIA? OPTIONS FOR A NEW AMERICAN STRATEGY TOWARD IRAN 31 (Brookings: June 2009).
[24] Id.
[25] See Mark Dubowitz, "Hitting Tehran Where it Hurts," Wall Street Journal (Europe), July 14, 2009.

An Iranian nuclear arsenal will have a very negative impact on U.S. and global security, and the United States should be willing to pay a high price to prevent such an arsenal.

The 110th Congress passed no Iran sanctions legislation. If Iran acquires a nuclear arsenal, history may not look kindly on the 110th Congress's inability to take action while there was still time. I urge this Congress to do better.

Thank you.

Chairman BERMAN. Well, thank you all very much. Very interesting, provocative testimony.

I will yield myself 7 minutes, our new, once only time limit for this question-and-answer process. I am going to focus just first on the political issue. A few of you spent some time talking about—one of you referred to it, I think Dr. Milani—as sort of a purgatory, an uncertainty. Dr. Maloney and Karim Sadjadpour spoke about how this thing might play out. But let me try and push you.

You are experts, so you are supposed to predict when you don't know. Is the near-term existence—I mean, I took it at least some of you were approaching the point of saying the near-term existence of the regime is in question. And is the opposition movement more about restoring the legitimacy and integrity of the regime or about a regime change? A few of you who want to take that up could start with that.

Mr. MILANI. I think the opposition, in my mind, is divided in two groups. Some, like Rafsanjani, are more moderate. Rafsanjani, I think, wants a more refined version of the status quo. Moussavi and the rest of them, although they have not articulated it, I think want a return—some of them have implicitly said they want a return to the first draft of the Constitution. People forget the first draft of the Islamic Constitution did not have the concept of velayat-e fagih, where one spiritual ruler has absolute sway. The first draft of the Constitution was, in fact, a republican draft. Only when Khomeini realized that the opposition is weak, only when he realized that the crisis, the American hostage crisis, and the war with Iraq has created for him a situation did they ram through the Parliament, the constituent assembly, this provision of the law.

I think that concept is now dead because Rafsanjani's words are no longer accepted. And many of the top clerics in Iran—shi'ism has a very strong, peculiar structure. There are ayatollahs, and there are lower figures, hojjatoleslams. The ayatollahs have almost universally, with the exception of two, spoken against the status quo, spoken against the suppression; have considered it a sin to beat on innocent people. One old ayatollah, Mr. Montazeri, has basically issued a fatwa that says Mr. Khamenei no longer has the virtue, the capacity to hold the position that he has.

So the crisis, I think, is a very serious crisis for the regime as we know it, but whether a democratic alternative will come out of it as we understand democracy is unknown.

Chairman BERMAN. Anyone else want to come in on this?

Mr. SADJADPOUR. I would say in general that preelection this was a referendum on Ahmadinejad. Postelection, I think this is a referendum in many ways on Ayatollah Khamenei himself. And in general terms, Abbas is right that the opposition, I think, casts a very wide net. There is a diversity of opinions. But I would say broadly speaking, they want to see the disempowerment of the unelected institutions in Iran, namely the institution of the Supreme Leader and the Guardian Council, and the empowerment of the elected institutions, namely the institution of the Presidency and the Parliament.

Ms. MALONEY. I think that gets to the nature of your question, the near-term continuation of the regime, what kind of regime will it be? Clearly the de facto opposition leaders, the four political lead-

ers, Rafsanjani, Khatami, Moussavi, and Karubi, who are the kind of nominal leaders of what we are calling an opposition, are not people who are looking to move beyond the system. They are looking for some substantial greater, or lesser in some cases, modification of the system, much as Khatami sought to do when he was President. What he has talked about is not dissimilar from what he tried to do in terms of limiting the Office of the Supreme Leader and elevating and empowering the elected offices of the Iranian system.

What the population wants, I think, is still unclear. The protesters, in the aftermath of the election, tried very hard to make it clear that they were not, in fact, challenging the system. They focused their grievances on the election itself. But once you begin to attack the Office of the Supreme Leader, once you begin to say, "Marg bar Khamenei," or, "Ahmen eraft," reprising one of the famous lines in the newspaper in 1979 about the Shah, I think you begin to raise questions about the longevity of the system. They are not short-term questions, though.

Mr. CLAWSON. If I may just quickly add, those who stormed the Bastille were loyal subjects of the King. I don't think that is how the French Revolution turned out. These things have a dynamic, and if Khamenei goes because of protests, expect further change.

Chairman BERMAN. And that is a nice segue into the question of what does that change mean for the United States? What changes in tone or policy might follow on? A couple of questions that are very important from my point of view: What does it mean in the context of a uranium enrichment program? What does it mean in terms of the continued financial support for terrorist organizations? Is it foregone that those policies continue, or is what Dr. Clawson hinted at, the potential of greater change, in the offing?

Mr. MILANI. You know, when the confrontation between Israel and Gaza occurred, Iran did virtually nothing, virtually said nothing. And I think that was a reflection of the fact that they were economically straddled. They no longer had the $1 billion to give to Hezbollah to give out as insurance for rebuilding the houses.

But when we think about sanctions, unless the sanctions are crippling, the sanctions have also a positive point for the regime. The regime has used the sanction as an excuse to cover its economic incompetence. It keeps blaming the United States for these problems. Unless we can come up with the kind of a sanction that will do to Iran what the international sanctions did to South Africa, and I would be all for that, a half-baked sanction that gives the regime the excuse to offer as an alternative this explanation for why there isn't energy in the street, why there are no lights at night I think would politically help the regime.

Chairman BERMAN. So in the context of our earlier metaphor, the regime also tries to claim why the sun rises in the East, and it is the fault—okay. I am happy to recognize my ranking member, Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman.

Questions for Dr. Rubin and Dr. Kittrie: Earlier this week Secretary Clinton stated that "we want Iran to calculate what I think is a fair assessment, that if the United States extends a defense umbrella over the region, if we do even more to develop the mili-

tary capacity of those allies in the gulf, it is unlikely that Iran will be any stronger or safer." Secretary Clinton also said that North Korea must agree to irreversible denuclearization before returning to multilateral disarmament talks.

How can we account for such a contradictory position, given the President's June 4th statement that he said Iran should have the right to access peaceful nuclear power if it complies with its responsibilities under the Nuclear Nonproliferation Treaty? Why would the administration now demand full denuclearization of North Korea, yet not do so for Iran nor Syria? Do you believe that this, in fact, is the administration's acceptance of a nuclear Iran?

I will ramble on here, and then whatever time you have got left. The GAO recently reported that the International Atomic Energy Agency has provided Iran and other state sponsors of terrorism millions of dollars in nuclear assistance over the past decade. The GAO recommended that Congress consider restricting the U.S. contribution to the IAEA for its technical cooperation program. I have introduced legislation to do just that. I would like your comments on whether this would put significant pressure on the Iranian regime.

Thank you, Mr. Chairman. And thank you to the witnesses.

Mr. RUBIN. I will start, if I may, very briefly.

The contradictory statements that come out of the administration on proliferation undercut our policies across the board. And anyone that looks at the North Korean press or the Iranian press will certainly see reference to the other in those cases.

With regard to the broader problems, we see Iran's nuclear breakout as an untenable issue, untenable for U.S. national security. The problem is that other regional states, most specifically Israel, see it as an existential threat, and unless we are seen to have credibility in that our diplomacy is going to advance to the point where Iran will not become a nuclear weapons-capable power, then we risk Israel making a calculation based upon its own interests, which could plunge the region into chaos.

Ms. ROS-LEHTINEN. Thank you.

Mr. KITTRIE. Thank you.

The U.N. Security Council, in Resolution 1737 of December 2006, explicitly ordered Iran to, without further delay, suspend proliferation-sensitive nuclear activities, including all enrichment-related and reprocessing activities, and work on all heavy-water-related projects. The IAEA—not the Obama administration, not the Bush administration, the IAEA—has explicitly stated, including in its June 2009 report, that Iran has not abided by those legally binding orders of the Security Council.

I am troubled by the administration's implication that perhaps something less than the U.N. Security Council resolutions would be acceptable. The NPT regime is at stake, and I think we need to do whatever it takes from a sanctions perspective to make sure that Iran abides by those legally binding U.N. Security Council resolutions.

Ms. ROS-LEHTINEN. Thank you.

And I just have 3 minutes left. Can a regime that now defines itself and its domestic legitimacy by its nuclear weapons program be convinced to effectively discard that program?

Mr. RUBIN. I am not sure that it can be without some robust coercion. One of the things which I chafe at when I hear the media is the description of Iran's nuclear program. What we are actually talking about when it comes to a potential nuclear weapons program is the command and control of the Office of the Supreme Leader and Islamic Revolutionary Guard Corps. As Karim alluded to in his testimony, while we talk a great deal about the political spectrum, hard-liners, reformers and so on, when it comes to the IRGC, that tends to be a black box when it comes to the political factions therein. We simply don't know a lot about what is going on inside the IRGC, and that should scare us to death, considering it is not the Iranian people or the protesters in the street that are going to have any say in this program, it is going to be the Islamic Revolutionary Guard Corps and the Office of the Supreme Leader.

Should change come, Iranians are, of course, fiercely nationalistic. But our problem, and the International Atomic Energy Agency's problem, has been Iranian noncompliance with nuclear safeguard agreements. It would be a lot easier to verify Iran's intentions should there be much more significant change across the board in Iranian society.

It should also lastly be noted that the Iranian people are far more moderate than the Iranian Government is, and therefore, if the Iranian Government were to somehow become much more accountable to its people, that would also have a moderating effect on the issues not only of nuclear intentions, but also of state support for terrorism.

Mr. KITTRIE. Your question is a good one, and as it happens, there are some very interesting precedents, both the Iraq and Libya precedents, where these dictators gave up their nuclear programs under pressure, and indeed, there are also a number of instances of where countries have given up actual nuclear arsenals, including Kazakhstan, Belarus, Ukraine, and South Africa. All had actual nuclear arsenals that they gave up. So if we play our cards right, I think there is reason for optimism.

Ms. ROS-LEHTINEN. Thank you so much.

Thank you, Mr. Chairman.

Thank you to the witnesses.

Chairman BERMAN. Thank you.

I wish Iraq had told us they had given it up.

The gentleman from New York, Mr. Ackerman.

Mr. ACKERMAN. Thank you, Mr. Chairman.

Engagement. I think I have seen the movie before. I would concede that I saw it in a different theater, but that doesn't disqualify me from thinking that I suspect that I can remember how it ends. If there is a chance that we could have engagement with Iran, with whom right now would we negotiate?

I ask that question fervently believing that despite the fact that there may be some confusion over who comes out on top, I would be shocked if I thought any of you would suggest that they have stopped their nuclear weapons program while that dynamic is happening.

Who would you talk to if you were the President and made a phone call? Or would you not talk to anybody until some of the

dust settles, and it becomes clearer with that clock ticking within the alligator?

Mr. CLAWSON. Personally, I would wait for their phone call. I think that the ball is in their court——

Mr. ACKERMAN. Okay.

Mr. CLAWSON [continuing]. And that we shouldn't rush, and that we have shown the world that we are interested in engaging, and that——

Mr. ACKERMAN. So you would allow them to continue to develop their nuclear weapons program with the Israeli clock ticking at the same time?

Mr. CLAWSON. I wouldn't be in any great rush to engage with them.

Mr. ACKERMAN. Okay. Dr. Maloney?

Ms. MALONEY. I think that is the reality. I am sorry, Maloney and Milani, we often find ourselves conflated here, but I think that is where the administration is at this point. There have been a number of gestures that were made earlier in the year. The administration is prepared for a response and, I think rightfully so, is going to play out this clock.

Mr. ACKERMAN. Okay. Dr. Milani?

Mr. MILANI. You know, my sense is that the two clocks, the nuclear clock and the democratic clock, are interlinked. This regime cannot be relied on to abide by its words. Even if it promises to stop its nuclear program, a regime that——

Mr. ACKERMAN. You have seen the movie, too.

Mr. MILANI. I have seen the movie. But I would say that engaging with them creatively and wisely helps the democratic clock. We will not have a resolution of the nuclear program unless we have a democratic regime in Iran. Every policy, in my view, that tries to stop the nuclear program must have the democratic clock.

Mr. ACKERMAN. Okay. Dr. Sadjadpour?

Mr. SADJADPOUR. I am not a doctor yet, but, you know, I think there is a policy which reconciles these two goals of preventing Iran's—or deterring Iran's nuclear ambitions, while at the same time helping to facilitate the conditions for the Iranian people.

But I would simply agree with what Patrick Clawson said, that the Obama administration has made tremendous efforts to reach out to Tehran. The dust hasn't settled in Tehran, so we shouldn't reach out yet.

Mr. ACKERMAN. Okay. We are 0 for 4 on negotiating.

Dr. Rubin?

Mr. RUBIN. If the Supreme Leader and the IRGC aren't prepared to talk on nuclear and terrorism issues, we need to consider what our plan Bs, Cs and——

Mr. ACKERMAN. 0 for 5.

Professor Kittrie.

Mr. KITTRIE. The offer of dialogue is——

Mr. ACKERMAN. Press your button.

Mr. KITTRIE. The offer of dialogue is on the table. I don't think we should just sit back and wait. I think we should be squeezing the Iranians as time goes on in the ways I described.

Mr. ACKERMAN. 0 for 5½.

In order for us to have any effect on the process of stopping a nuclear program, we have often talked about big carrots and big sticks, which I think the administration has referred to previously, and certainly the chairman has advocated in the past. The question is really the big sticks, which we have not implemented whatsoever. Should we be right now, as quickly as we can, ratcheting up critical sanctions in which we get as many international players involved?

Mr. CLAWSON. Mr. Chairman, as big a problem as the stick has been that Khamenei thinks our carrot is poisoned. He thinks that, in fact, our objective is to overthrow his regime through a velvet revolution. And so, therefore, he is completely unconvinced that doing a deal on the nuclear issue is going to bring him any benefit whatsoever.

Mr. ACKERMAN. If there were big sticks in effect, if we indeed were able to realize a rapid implementation of sanctions that had a more crushing impact on their economy, does not that help us?

Mr. CLAWSON. Our problem is he thinks we are going to keep up those sanctions until he goes. He thinks that our real objective is to get rid of him and to get rid of his system. So he thinks that the nuclear issue is just their latest ruse that we are using for our goal of a velvet revolution.

Mr. ACKERMAN. My question is, don't economic sanctions help the people in the street?

Ms. MALONEY. Iran is a rational actor. The regime makes cost-benefit calculations. It has reversed policy on very critical issues, including the decision to end the war after Khomeini inveighed against that for years.

Mr. ACKERMAN. Who would make that decision now? With everything going on, who would make that decision now? Is there anybody able to make that decision?

Ms. MALONEY. The Supreme Leader Ayatollah Khamenei.

Mr. MILANI. I don't think Khamenei is no longer in a position to make that decision. I think a clique of the Revolutionary Guards are as much in charge of Iran's foreign policy as Khamenei is, and I think without their say, that won't happen. Again, I think you have to remember there is something very unusual about the Iranian people. They are the only pro-American Muslim society. We need to keep that in mind.

Mr. ACKERMAN. Yes.

Mr. Sadjadpour?

Mr. SADJADPOUR. I think the most devastating blow to the Iranian economy would be a precipitous decline in oil prices. A $1 decline in oil price is about $900 million lost annual revenue for Iran. And a country which can most effectively bring oil prices down in the near term is Saudi Arabia.

Mr. RUBIN. If we are interested in diplomacy, coercion amplifies diplomacy.

Chairman BERMAN. The time of the gentleman has expired, and the gentleman from Indiana, Mr. Burton, is recognized.

Mr. BURTON. You know, Mr. Chairman, it seems to me there is three avenues to solve the problem. One is a dialogue, and we have tried that, and it hasn't worked. That kind of thing was tried with Libya, and it didn't work. And then Ronald Reagan bombed the

hell out of Libya, and that changed everything pretty quick. And when the Israelis decided to knock out the nuclear development program in 1982, and they were criticized for it, that changed the attitude of Iraq a little bit, although Saddam Hussein was still a lunatic.

It seems to me that if we don't impose sanctions immediately, really strong sanctions, nothing is going to change over there. And I would like to give you an example. Most of you are too young to remember, but after the Treaty of Versailles in World War I, the Germans weren't supposed to have over 100,000 people in their military so they would never be a threat to Europe anymore. Instead, a man named Adolf Hitler used 100,000 people to train a multimillion-man army. And because we wanted to make sure there was peace in the world, and we were involved in trade, Rolls Royce engines were being sold to the Luftwaffe in Germany, and he built up the biggest military machine in history. And instead of trying to put economic pressure on Adolf Hitler, we tried to negotiate with him. We tried to talk to him. We didn't put any sanctions on him. And in 1938, Lord Chamberlain went to Munich, came back with a piece of paper saying, "Peace in our time," gave away the Sudetenland, and 60 million people died.

You know, we are in the atomic age. We are in the nuclear age now. If we don't deal with this now, we could see what happened in World War II to be child's play. There could be millions and billions of people killed in a nuclear conflagration, not to mention the economic problems that would arise after you have a war in the Middle East, where so much of our energy comes from. So we have to do something now.

I mean, all this talk is great, and I really appreciate the intellectual approaches that you are talking about and how we ought to be talking to them and working with them. We have been trying. We tried, and we tried, and we tried, and it hasn't worked. And so it seems to me the next thing we do is we use the hammer, and that is a sanction. We take the chairman's legislation, and any other legislation we can come up with, get it passed, get our allies to work with us as much as possible, put a freeze on all their assets in the United States, hammer these guys really hard right now; and then if that doesn't work, and they continue with all these development programs, these centrifuges and everything else they are doing over there, then something is going to have to be done to stop them, because they want to destroy Israel, and they have said that we are not their best friend, and they don't much care about doing something like that to America. This is a world threat in my opinion. Just one voice up here, but I think a lot of my colleagues share this view.

I think it is extremely important that all sanctions be put in place as quickly as possible. Let them know we mean business, and let them know that the next stage is going to be something that they are not going to want to have happen. It worked with Libya, and I think it would work there as well. We don't want to hurt those people. The people in Iran are good people. They like America. They dress like Americans in many cases. They try to live like Americans. But those guys in charge over there need to get the

message, and these sanctions are the way to get the message to them, and they need to know what is going to happen next.

Now, Israel is threatened. A nuclear weapons program that develops a nuclear capability with a delivery system threatens the very existence of a very small country called Israel. And they have nuclear weapons. Unless we do something and do it relatively quickly, in my opinion, we are going to see a real threat of a conflagration over there that nobody wants.

And I hope you will just take what I have said to heart. I know you have differences of opinion. I know some of you have a much more pacifistic approach, a much more reasonable approach. But if you look at history and see what has happened in the past, you know that there is a real correlation between the way we treated what happened in World War II and what is happening right now. You have to let them know you mean business. You have to impose those sanctions, and they have to know what is coming next if they don't deal with it.

And I yield back.

Mr. CLAWSON. Sir, if I may say that as you indicated, the prospects for diplomacy are poor. Frankly, so are the prospects of resolving this problem through sanctions.

Mr. BURTON. How do you know that? How do you know that? How do you know if we put the hammer on them as far as the bill that the chairman is talking about and the President would utilize, how do you know if we froze all their assets here in the United States, how do you know if we didn't get our allies to do some of this that it wouldn't work? To say that it won't work, the people are out on the streets right now because of the election. You think if the cost of everything goes up, and the unemployment rate goes through the ceiling that they are not going to want to do something about it?

Mr. CLAWSON. Mr. Khamenei doesn't care much about the economy.

Mr. BURTON. Well, he will if they are out there in the streets after him with guns and knives and everything else. And that is what is happening. That is what happens when the people feel the pressure from sanctions that are severe. And we can do it. Their assets are here. Their production of oil, their need for oil and gasoline. This idea—I am about out of time. But this idea that you can negotiate with a tyrant who sends people into the surrounding countries to blow themselves up because they are going to go to Valhalla or someplace, I mean, he doesn't—he is a power-hungry man, and the only thing he understands, like any bully in a school yard or a world theater, is strength. And the first fist you give him is sanctions that are so severe that everybody feels it in that country, and then I think you will see a lot of uprising in the people. And then if that doesn't work, you have to do something else.

Chairman BERMAN. Would the gentleman yield?

Mr. MILANI. Congressman, the United States negotiated with Hitler. The United States negotiated with Stalin. The United States, President Nixon unilaterally began negotiations with Mao Zedong that was personally responsible for the death of 30 million people and 10 million people during the Cultural Revolution. The fact that these are despots and dictators does not mean that we

should not negotiate with them. It means we should not allow them to be dictators.

A unilateral United States sanction helps Rafsanjani, Khamenei, and the regime, and it will because there is China out there. There is Russia out there. There is Venezuela out there. These guys have created an international brotherhood of despotism. You are not working in isolation. Germany, the United States ally, just sold $700 million of the most sophisticated equipment for censoring people and beating up people. Well, stop those, and you will stop the regime.

Chairman BERMAN. The time of the gentleman who was around for the signing of the Treaty of Versailles has expired.

Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman. I don't know how you follow that, the Versailles Treaty. When was the Versailles Treaty tried?

I guess, Mr. Milani, you know, I understand the hammer. I guess let me pose this question again to the panel, but let me start with Dr. Milani, because I think I agree with what he was going to say. The issue is, from where I see it, if we use the hammer, is there a likelihood that the nationalist impulse among the Iranian people will rally and support the current government?

Mr. MILANI. I think if the Iranian people feel like the nation is under assault, if there is a military strike, I would be extremely surprised if people don't rally around the regime. That is why I think a military option in this current situation is the only thing that will save this tyrannical triumvirate that has seized power.

Mr. DELAHUNT. But I am going to the tough sanctions, the kind of sanctions that were being described by my friend from Indiana.

Mr. MILANI. I think Patrick Clawson is right, Khamenei does not want to negotiate. To start negotiating with the United States is the end of his regime. We have to make him an offer he can't refuse.

Mr. DELAHUNT. What is that offer?

Mr. MILANI. The offer is we are willing to sit and talk with you unconditionally on every issue, human rights, nuclear——

Mr. DELAHUNT. The so-called grand bargain.

Mr. MILANI. Not a grand bargain. In fact, I have argued in my paper that the grand bargain is a good bargain for the regime. The regime says, give me security, I will make a promise that I won't make the bomb. If you buy that, I have a bridge in San Francisco to sell you. This is a regime that lies to its own people; it is going to lie to you.

That is not good enough. Talk with them the way Ronald Reagan talked to the Soviet Union. He talked about nuclear in the morning; he talked about human rights in the afternoon. Shultz is sitting a few doors from my office, and he mastered the process of negotiating with murderous, tyrannical regimes. The U.S. knows how to do this. The U.S. has successfully done this. This is not a superpower. These are—as he said, this is thugs, this is the Soprano family ruling a country. And it is not that difficult to talk to the Sopranos, but you can't do it through empty threats, and you can't do it through threats that they can bypass when they have China and Russia.

Mr. DELAHUNT. In other words, you can't do it by way of unilateral sanctions. It has to be multilateral sanctions to be effective to get their attention.

Dr. Maloney?

Ms. MALONEY. I would just add that I think this is one of the problems with the Refined Petroleum Sanctions Act, which is that, one, you will conceivably split the people from the regime. Iran can withstand a cut-off of refined products. The people who will suffer are those without access. There is an inordinate amount of smuggling that goes on in this part of the world, and the regime and those with access to power will probably have plenty of gasoline. It is the kids in the street, it is the people who earn their living driving a taxi cab in their off hours who will suffer, and they may not blame the regime, they may well blame us. But the larger problem is this issue of unilateral versus multilateral.

Mr. DELAHUNT. Is that the core of the problem that we have?

Ms. MALONEY. Absolutely. And I think this is where we have a potential opportunity here, because we typically—our diplomacy is focused on Russia first and then dealing with China secondarily as a country that will follow Russia's lead on this particular set of issues. They have very different interests at stake. The Chinese depend upon energy sources from the gulf. This is why they are so interested in Iran. They are investing in Iran for the long term. They are signing a lot of deals. They are not actually putting a lot of money into the country. And this is because they are trying to secure a place.

What they need to understand is that Iran is in a period of flux, and that as they seek to secure a long-term position in Iran, they need to be doing so with an eye to the fact that the structure of power is changing and is likely to change further. We can have that kind of a conversation. We may well be able to begin to get the Chinese to appreciate the power and utility of sanctions, and that would have much more influence on the regime's outlook and the regime's decision making than sanctions that are largely targeted toward the population.

Mr. DELAHUNT. Mr. Clawson?

Mr. CLAWSON. So far I see no evidence whatsoever that the public opinion in Iran has blamed the economic problems of the country on sanctions. Quite the contrary, the blame has been on the regime for its hard-line policies that isolate Iran from the rest of the world. And so we are in the exact obverse situation we are in in Cuba, where the regime has been successful in blaming its problems on sanctions. In Iran, by the contrary, problems——

Mr. DELAHUNT. Has the Iranian Government made the effort to ascribe their economic woes to the existing sanctions?

Mr. CLAWSON. Not very much, and when it does, it usually blows back in their own face, because the response from the populace is, then why are you adopting these stupid policies that are isolating us from the world? It is the same regime which cuts off the Internet which cuts Iran off economically from the rest of the world. The people of Iran blame the hard-line government for cutting Iran off economically, socially, culturally from the rest of the world. That is the big issue in Iran. Do you want to be part of the world, or don't you? And we are on the side of the angels.

Mr. DELAHUNT. Let me—my time is running out. If a tough sanctions legislation as proposed by the chairman should come out of the committee, would you recommend that the sanctions be mandatory, or should discretion be vested in the executive in terms of their application so to allow for, if you will, a more agile response?

Mr. CLAWSON. One has to have confidence in an administration when one provides it with that kind of authority, because there is a long history of administrations——

Mr. DELAHUNT. That is neither a yes nor a no.

Mr. CLAWSON. I have modest confidence in the administration, so my answer is yes.

Mr. DELAHUNT. Okay. So it is a kind of yes.

Ms. MALONEY. Unless you are prepared to sanction China, you have to provide some sort of waiver authority to the administration.

Mr. DELAHUNT. Okay. Dr. Milani, yes or no, please.

Mr. MILANI. I don't think unilateral sanctions work.

Mr. DELAHUNT. You don't think they work, so you are a no.

Sir? Karim?

Chairman BERMAN. I think——

Mr. SADJADPOUR. I will say one word.

Chairman BERMAN. One word.

Mr. SADJADPOUR. We should defer to the opposition themselves instead of trying to decide for them here from Washington.

Chairman BERMAN. The time of the gentleman has expired.

Mr. Rohrabacher, your choice, 2 minutes now or 7 minutes when we come back?

Mr. ROHRABACHER. How about 5 minutes now?

Chairman BERMAN. You will do it without me.

Mr. ROHRABACHER. That is fine. Let us just go very quickly.

Number one, this has been a great panel. And let me associate myself with Dr. Rubin. We will not—dialogue means nothing unless there is force behind it, especially with tyrants and gangsters, which we are dealing with. For the record, the United States needs to act rather than just talk. And even in terms of what we are saying has been wrong in the last 12 months. We actually—what we have been saying portrays us as weak. Apologizing to a tyrant, apologizing to people who murder their own people is not taken as something that, oh, that must be sincere; now we can negotiate honestly with this person because he has apologized.

I would hope that this administration breaks out of this psychological mind-set that it has got in terms of America as the cause of all the problems of the world, and the suffering can be drawn back to some mistake America made 30 or 40 years ago. Let me note that we did not overthrow communism, we did not defeat communism without a major conflagration by simply using words.

And I certainly appreciate the witness who suggested that Ronald Reagan knew how to talk to the Soviet Union, because he not only talked, he acted. And that is the basis of my question here. We can do more than just sanctions. It sounds like to me that what we have been presented, well, we have economic sanctions, or we talk to them, or we just don't engage. Well, what about the other option that has been very successful with the Orange Revolution in Ukraine and other revolutions, and especially the overthrow of So-

viet communism, in that we should have covert support for those elements within a dictatorship, in this case Iran, so that they will have the material well-being and the where-for-all to take on that government themselves? Could an operation of covert support work in Iran? And just very quickly down—first Mr. Rubin, yes, sir.

Mr. RUBIN. Well, with regard to President Reagan, one opportunity we missed with Iran was in December 2005, when we missed a Lech Walesa Gdansk moment, when for the first time in the Islamic Republic, an independent trade union formed among Iranian bus drivers. If we are going to make the Iranian Government more accountable to its people, we should certainly—and we can most certainly join with the Europeans in this—voice a great deal more support for independent trade unions in Iran like we did in Poland.

Mr. ROHRABACHER. Let us note this.

Chairman BERMAN. Dana, I am going to——

Mr. ROHRABACHER. Can I come back?

Chairman BERMAN. You absolutely can come back. And when we come back, I do want—I am going to use the chairman's prerogative to explain what I think is a slight misunderstanding of my idea of the strategy of my legislation. And—but after Ms. Woolsey, who is going to take the chair, because she would rather talk to you than make the first of the series of five that we are now on.

We will recess probably for about 25 or 30 minutes. Talk among yourselves. But we intend to come back and finish this, and we very much appreciate your indulging our little problem we have with votes on the House floor.

Ms. Woolsey.

Ms. WOOLSEY [presiding]. I thank you. We are going to have one more question. That is my question, because I can't come back.

Thank you, panel. You have been so interesting. I couldn't believe it was 7 minutes for each of you. You were wonderful.

We talked about pro-American Islamic society. So anybody can answer this, but this is a huge—I have got a couple really big questions. I am going to ask them both, and then you can answer as you want, and then I will go vote.

Are the young people, are the women that are part of the resistance part of this pro-American Islamic society, or is it just my generation and not your generation? Dr. Maloney, those of us—and, Dr. Clawson, those of us that have been around a long time, is it only people like us? That is one question.

The other question is—and I was very concerned about this when I was, you know, supporting in my heart the opposition and cheering them along, but when it gets to modifying the system as being the core reason for the opposition at this point, how will that change the uranium enrichment program? Will it be that different?

So those are my two questions.

Mr. MILANI. What was the second question?

Ms. WOOLSEY. I can't hear you.

The second one was about the modification of the system being the goal, and how will that change the uranium enrichment program and their cause?

Mr. CLAWSON. If I may address the second question. As Karim Sadjadpour has often said, everybody in Iran wants a nuclear pro-

gram so long as it doesn't have a cost. But it does have a cost, and if the cost of the nuclear program is isolation from the world, that is not a cost which those in the protest movement are prepared to see their government pay. And so if this protest movement is successful, there is excellent prospects that we can resolve the nuclear impasse, because the debate in Iran is not should we have a nuclear program or not, the debate in Iran is should we connect with the outside world. Khamenei's answer is no. And the protest movement's answer is yes. If the price of connecting with the outside world is compromising on the nuclear program, those in the protest movement would say pay that price.

Ms. WOOLSEY. All right. That gives me hope.

Dr. Maloney?

Dr. Milani.

Mr. MILANI. On the question of enrichment, we have actually an empirical answer to your question. There is a poll. Almost 90 percent of the Iranian people in that poll conducted by an American group——

Ms. WOOLSEY. That we trust so much.

Mr. MILANI [continuing]. That we trust—in the poll almost 90 percent of the people said that Iran should provide adequate guarantees to the United States and the rest of the world that its nuclear program is peaceful, and then continue the program in cooperation with the West. In other words, 90 percent of the people don't want this confrontational path that the regime has taken. And I think a disproportionate number of the Iranian youth and women, the women's movement are also pro-West, prodemocracy, pro-United States.

Ms. WOOLSEY. Okay. Dr. Maloney?

Ms. MALONEY. I will answer the first question for the most part because I don't disagree with what Patrick has said or, frankly, what Abbas has just said. But in terms of the views of women and youth, I spent a little bit of time in Iran, not recently. Karim has spent more time and more recently. None of us were there during the protests, but I will tell you that the general sentiments of the Iranian people as expressed to Americans who visit is almost uniformly positive. Whether you are at the Ministry of Islamic Guidance, or whether you are simply walking down the street, you become something of a rock star if you are an American. And I think that sentiment has continued. It doesn't always correspond to similarly positive feelings toward the U.S. Government or toward U.S. policies. But there is a general appreciation for American culture, American history, a respect for American ideals, and a hunger that is widespread and infects the Basij as well as the pro-Western youth as much.

Ms. WOOLSEY. People to people they like us still.

Ms. MALONEY. Exactly.

Ms. WOOLSEY. Okay. Mr. Sadjadpour?

Mr. SADJADPOUR. I would group together the two questions by saying that I think the vast majority of not only the Iranian population, but also the Iranian political elite behind closed doors recognize that this "death to America" culture of 1979 is absolutely bankrupt today. And it has really brought nothing but economic malaise and political and social repression. And I think that in-

cludes the reform movement, the opposition as well. And I think that a changed orientation toward the United States and toward the Middle East peace process would result if this opposition movement ever came to office. And I think it would also change the orientation of the nuclear disposition as well.

Ms. WOOLSEY. Okay. Thank you.

Dr. Rubin?

Mr. RUBIN. I tend to agree, but with the cautionary note that ultimately it is the guys with the guns that control things. The Iranian people aren't the impediment. And then the dialogue-to-dialogue exchanges, we still don't get to the main issues of concern to U.S. national security, which is what is going on within the Islamic Revolutionary Guard Corps, which certainly is not as pro-American as ordinary Iranian people.

Ms. WOOLSEY. Professor.

Mr. KITTRIE. Your excellent question about the Iranian people, I think, goes to the issue of what would be their response to enhanced U.S. sanctions? There was an implication by a number of the panelists that, in fact, enhanced U.S. sanctions might lead the Iranian people to blame the United States, be a "rally around the flag" kind of effect for the regime.

I disagree. From what I have seen, I think you can look at the example of Under Secretary Levy's sanctions that have had a significant impact, and the Iranian people are blaming the regime for their economic problems. If you look specifically at IRPSA, the Iran Refined Petroleum Sanctions Act, you know, what happened in 2007 when the Iranian regime had to ration fuel, people rose up against the regime. They would have to ration fuel again if IRPSA went into effect. The BBC has called such a step dangerous for the government of an oil-rich country like Iran, where people think cheap fuel is their birthright. Squeezing Iran's gasoline imports would remind the Iranian people that instead of choosing to invest in improving refining capacity to meet Iran's growing demands——

Ms. WOOLSEY. Okay. Thank you. I do have to go vote also. Thank you very much for taking this extra time.

The committee is in recess briefly. We have four more votes after this one. So thank you again.

[Recess.]

Chairman BERMAN. The committee will come to order.

I am going to use the chairman's prerogative. I have cut a deal with Mr. Rohrabacher, so I can use my prerogative, and he can get an extra 1 or 2 minutes.

Just to clarify some of the questions and points made, I think, regarding the strategy here, I think it is good to get those on the record. First, I believe assets of the Iranian regime have been frozen in the United States since 1979. Now, I like "The Producers" as a play, but I think you can't keep selling 1,000 percent of this.

So, secondly, with a few exceptions—and I am actually surprised to hear the notion of the level of bilateral trade between U.S. and Iran. But with a few exceptions, we pretty much have a "unilateral embargo," a comprehensive set of sanctions. I don't know if that 80-fold increase in trade is all pistachio nuts, carpets—well, the big thing was we have exempted food and medicine from all embargoes. And if you want to challenge that issue, I think, okay, but

let's clarify that that has to be—I like pistachios, but that would not account for an 80-fold increase in trade. So it must be the food and medicine exemption.

Mr. CLAWSON. Mr. Chairman, if you will allow me, it was 90 percent wheat, U.S. sales of wheat to Iran.

Chairman BERMAN. Ah, yes. We used to do that to Iraq, I remember.

Third, Dr. Rubin earlier talked about you have a plan A, and you better have a plan B and a plan C and a plan D. My legislation I view as plan C.

Plan A is to make it clear that, whether it is bilaterally or multilaterally, the United States is prepared to engage with the leadership of Iran. That, I think, the President has made clear in many different times, in many different fora. And, as we have talked about earlier, it hasn't been responded to.

Plan B is the issue of international sanctions. No one can argue with a straight face that unilateral sanctions are anywhere near as effective as tough international sanctions. And there are key players that make up part of that.

I took note of the fact that what had been a timeline on the engagement of the end of the year became a move to an assessment of plan A at the G–20 in late September. And, presumably—I know the groundwork is being laid for a plan B now. It is my belief that, at the summit, the single longest time spent discussing any subject in the meetings between President Obama and Medvedev and Prime Minister Putin was the subject of Iran. And I believe other efforts are going on, as well.

Plan C, for me, it isn't that my bill is unilateral sanctions by the legislation we have. There are already unilateral sanctions. These are extra territorial unilateral sanctions, which I am talking about some time in the early fall marking up in this committee and moving out.

And there is an aspect of this that can have an impact if it is actually enforced by an administration, because it does force some critical companies to choose between doing business with the United States and people involved with the sale of refined petroleum products or investments in the energy sector or increasing Iranian refining capacity. It requires these companies to choose.

Other countries hate those sanctions, but sometimes, in the context of their hatred, it makes them more open if they think we are seriously moving down that road toward considering taking the international sanctions issue more seriously. So it is in that context that I have proposed this bill and have the timeframe I had.

And, with that, I am happy to recognize the gentleman from California, Mr. Rohrabacher, for 5 minutes.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. And, again, let me congratulate you on choosing an excellent group of witnesses today.

Each and every one you has made a contribution to my understanding of what is going on. And I hope that people read your testimony who weren't here.

Especially, of course, Dr. Rubin, I already congratulated you, because I think that some of the fundamentals that you talked about were very clear and very to the point. And they are truisms that

need to be recognized if you are going to have any real influence in this world.

Theorizing and philosophizing will get someone nowhere when dealing with a gangster or a tyrant. And soft talk—and if I had any criticism of this administration, it has been the soft talk. And soft talk does no good, even if you have a big stick. If you talk softly or if you apologize, it will be taken as a sign of weakness. And I believe that is what has happened with the current administration and those goons that control the Iranian people.

Tough condemnation of human rights violations and aggressive vocal support for the cause of freedom can have an impact. Speaking too softly to tyrants certainly will have a negative impact, but speaking aggressively and condemning tyranny can actually have a positive impact. So weak remarks are likely, as I say, to be seen as weakness.

Now, to Ronald Reagan, who was mentioned, he knew how to do it. Well, he used tough rhetoric, and I am very grateful that I had the opportunity to work with President Reagan for 7 years. I was one of his senior speechwriters. But let me note that it wasn't just the rhetoric. It was also that Ronald Reagan had acting programs that he personally had approved, covert operations, to weaken the Soviet Union.

And so our choice isn't, as Mr. Burton might have been mistakenly interpreted as saying, we need to have military action or threaten military action. We don't need to do that. There are other actions that can take place, which leads me to the question for the panel.

Number one, do you think that freezing the bank accounts of the mullahs who have robbed their people of hundreds of millions, if not billions, of dollars would have an impact, number one?

Number two, should we have the covert support, which we have not been? And do you believe that, had we over these last 10 years been providing covert support, which would have given money and other type of financial support behind those people within the Iranian society, the young people, the other nationalist elements there that oppose the mullah dictatorship, would that have made an impact, as it did with the Soviet Union when we supported solidarity and we supported various pro-freedom elements within the Soviet bloc?

So those are my two questions about freezing the assets—and, for the record, I think that the United States should, right now, step forward, find out where that money is, and freeze the bank accounts of every one of those mullahs who run their country with an iron fist.

And, number two, if we are going to succeed, we need to support, not just vocally, the cause of freedom in Iran, but we need to support those people who are struggling on the ground so they know they have outside support. Would that make a difference?

Right on down the line, very quickly.

Mr. CLAWSON. Interesting indications suggest that there have been significant amounts of money transferred by some of those mullahs to Europe in the last 2 months. And I would hope that we could help provide European governments with information about this.

There is some considerable interest to Europe in freezing money along the lines you described for human rights reasons and also for banning their travel. Because a number of those people, especially their family members, go to Europe on a regular basis on shopping trips.

Mr. ROHRABACHER. And the second part of it, very quickly, because we only have a little bit of time, would covert support—for example, the union that was mentioned already—unions and other religious groups, other national groups and other student groups, would that have a chance at succeeding? And could it have already succeeded had we done so 10 years ago?

Ms. MALONEY. To the first question, let me just say that, obviously, there are no bank accounts of regime officials in this country. We would need cooperation from Europe, and particularly from the Gulf, from Dubai, where much of the regime's money is banked.

And if we had a blanket frozen order, what we would likely do is pick up accounts associated with Hashemi Rafsanjani, who is, of course, now a de facto leader of the opposition. So it would have to be somewhat targeted in the way that we did that.

In terms of covert support, I think that would be disastrous. It would be exactly the wrong lesson to take from what we have just seen on the streets. Iranians want an authentic opposition movement. They don't want our money; they don't want our involvement in what they see as an indigenous movement.

Mr. ROHRABACHER. And you know that—just for the record, the only time any revolution has ever worked against tyrants, including the American Revolution, they had outside support, especially the Orange Revolution.

Ms. MALONEY. Not in 1979.

Mr. ROHRABACHER. Well, in——

Chairman BERMAN. The time of the gentlemen has expired.

The gentlelady from Texas, Ms. Sheila Jackson Lee, is recognized for 7 minutes.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman, for this hearing. And courtesies have been extended by the members, primarily the members of this panel, for giving us your insight.

Many of us are reminded of the apartheid fight in South Africa, when those who loved South Africa dearly rose and asked for sanctions by the world. Bishop Tutu, whose love of his country can never be challenged, felt compelled to stand in the eyes of the world and ask that his nation be condemned.

I believe it is important to stand in the eyes of the world in solidarity with what has to be one of the most provocative expressions of opposition in Iran for a very long time. I stand in solidarity. I believe individual voices of this country should be raised continuously. I make a plea to our nongovernmental organizations to take up this cause.

Today, I want to salute entertainers who are now on a starvation strike, artists who typically are called, in many instances, "soft," whose voices we may not know here in the United States, but are clearly raising their ire.

So my questions go to this whole world attitude, and where is the outrage? Where are the voices? Where is the United Nations?

It is difficult to promote sanctions when you think of what could happen to the most vulnerable and children. So I am going to start with those questions.

One, where is the world outrage for what is occurring? And let me pose my questions to—if I can find my list—let me start with Dr. Milani, if I can, on that question.

Mr. MILANI. I absolutely share your wonder about where the rage is. Ahmadinejad, a Holocaust-denying anti-Semite, came to New York, and no more than 1,000 people went to protest his arrival. There should have been hundreds of thousands of people demonstrating his presence there. If they had done so, he would not come back for more and more.

Every time he comes back here, he gets treated like a rock star. He gets asked the same repeated questions about whether he, in fact, has denied the Holocaust, whether he, in fact, has asked for the destruction of Israel, and not a single serious question about the fate of journalists in Iran, about prisoners in Iran, about the Baha'is of Iran, about other religious minorities is asked.

Ms. JACKSON LEE. My time is short, and I appreciate what you have given us.

Professor Kittrie, would you answer the question of sanctions?

I come from energy country, Houston—sanctions on my domestic producing or domestic-owned petroleum companies. Sanctions on the most vulnerable, babies needing milk—what kind of story will come out of a sanctions regime?

Mr. KITTRIE. Sure, thank you for your question.

The "Iran Refined Petroleum Sanctions Act," in fact, doesn't target U.S. companies. The only companies that supply gasoline to Iran currently are a handful of European companies and one Indian company. And it is those companies that would bear the brunt.

And, in fact, U.S. companies have long been cut out of, have long been prohibited by sanctions from selling gasoline to Iran. And I would think they might be supportive of leveling the playing field and having those European companies play by the same rules.

Ms. JACKSON LEE. Let me ask Dr. Maloney, because I believe in free speech and equal time, on your position on the engagement and sanctions.

Ms. MALONEY. On the question of this particular act?

Ms. JACKSON LEE. World outrage, and I believe that you have expressed some question about sanctions.

Ms. MALONEY. On the question of world outrage, I actually think that there has been a lot of sympathy voiced around the world by, as you suggest, entertainers and celebrities who are conducting this hunger strike in New York, rock bands—U2 has swathed their concerts in green. There has been a lot of interest in Iran, probably more interest in Iran than countries like Burma, China, elsewhere, where we see——

Ms. JACKSON LEE. Can you answer the question about the sanctions, your position on that?

Ms. MALONEY. Well, I think you raise an interesting point. Thus far, we have not heard the voices of Iranian opposition leaders calling for greater sanctions, as we did here with South Africa. And I think that would be an important barometer to watch for.

Ms. JACKSON LEE. Dr. Rubin, what about her point? We have not heard from the activists in Iran.

And what kind of leader would Mousavi have been? Would we have been more pleased with him?

Mr. RUBIN. The presidency in Iran is more about style than about substance on the issues of concern to U.S. Foreign policy: Nuclear proliferation and terrorism. The problem is with the Revolutionary Guard and with the Office of the Supreme Leader.

With regard to sanctions and opposition, it is hard to—certainly, Hashemi Rafsanjani is not the opposition figure. He is widely disliked inside Iran.

The issue is that, when it comes to what has been said before with regard to taint, we are darned if we do, we are darned if we don't, because whether we do act covertly or not, the regime media apparatus is going to accuse us of interference. So we might as well base our policy on what we believe to be correct and right.

Ms. JACKSON LEE. Dr. Sadjadpour, let me just ask you this pointed question: Do we have a breach in this Iranian Government that we can build on democracy? Do we have the potential of a regime change? Is this sustainable? What do we need to sustain it?

I know your position on sanctions, but there has to be some evidence to you that we need a change.

Mr. SADJADPOUR. I wouldn't use the term "regime change"; I would use the term "regime transformation."

And, actually, on sanctions, I think that there are many members of the opposition and the population who are actually starting to come around. Their views toward sanctions have changed. They are not in a position to publicly articulate that right now.

Ms. JACKSON LEE. They see value in it.

Mr. SADJADPOUR. They are starting to see value in it.

Ms. JACKSON LEE. And do you not believe that this is a historic time in Iran, for the government to change? Our words may be different, but since I speak Americanese, "government change," this is not a time for government change?

Mr. SADJADPOUR. Absolutely, I think this is a truly historic moment. And I think that we shouldn't underestimate the magnitude of what has transpired the last 6 weeks and, I think, what may continue to transpire.

Ms. JACKSON LEE. It is sustainable?

Mr. SADJADPOUR. I believe that it is going to be very difficult for the regime to go back to the status quo ante, because sacred red lines have been crossed.

Ms. JACKSON LEE. Thank you, Mr. Chairman. I yield back my time.

Chairman BERMAN. The time for the gentlelady has expired.

The gentleman from Arizona, Mr. Flake.

Mr. FLAKE. I thank the chairman and thank the witnesses. I was able to read a lot of the testimony, but I wasn't able to hear much. So I apologize if I plow ground that has already been plowed.

But the last vote on sanctions we had in this committee, I think it was 45 or so to one, me being the one. I am reluctant to use economic sanctions as an instrument, in this case. I have always felt that the difference between Iran and some of the other countries that we deal with is you don't have a population that is inherently

anti-American. And I am loathe to make them so. And so, I have heard some of the comments. I know that is a concern that many of you have. And if some want to elaborate on that, I would appreciate it.

And, also, first, I wanted to ask Dr. Maloney, if you will, with this new proposal on sanctions, it would affect some European countries, one Indian country you mentioned. I think we all recognize that, to the extent sanctions could be effective, we have to do them on a multilateral basis. And that involves our European allies, and we need to pull them into it.

Would enacting these petroleum sanctions make it more or less likely that we could get cooperation with our European allies in a broader set of multilateral sanctions?

Ms. MALONEY. I think the Europeans are coming around to the issue of sanctions support in a much more significant way, but it is still episodic, it is still very spotty across Europe. The British, the French are probably not too far from at least being willing to consider a wholesale ban on investment and trade. The Germans, the Italians remain in a very different place, although the human rights issue now changes their calculations, to some extent.

There had been a lot of European companies that have left Iran of their own volition, both because of the political risks but also because of some moral suasion from the Treasury Department. And I expect to see more of that.

But, obviously, to the extent that we engage in the business of potentially sanctioning trade partners, whether it is in Europe or Chinese state oil companies that are now talking to the Iranians about investment in their refinery sector, then we are going to have some repercussions.

And I think that is why, as Chairman Berman has suggested, the next round, the sort of plan B needs to focus on what we can do multilaterally, what we can do that has the broadest international buy-in. Because that is what is going to have the greatest effect on Iran's decision-makers.

Mr. FLAKE. And that is my premise. I believe that if we want to be successful, we have to have that buy-in. And what I am asking, if Dr. Milani or somebody else wants to comment, would enacting this new sanctions regime, these tertiary sanctions, make it more or less likely that we can get that buy-in that we need?

Mr. MILANI. I would like to continue essentially what my friend, Mr. Sadjadpour, said. I think if you asked the Iranian democratic leaders inside Iran about the effectiveness of sanctions, 2 months ago, they would have almost universally told you that they have helped the regime, they haven't helped our cause.

But now things have changed. Things have changed in two ways. First, when oil was at $120, the regime found a way of circumventing the embargo and, in fact, benefitted from it. Revolutionary Guard commanders became billionaires over these illicit trades; the sons of these clerics that created 10,000 companies in the United Arab Emirates whose sole job was to get commodities into UAE and send them to Iran. UAE suddenly became Iran's biggest trading partner. But now with oil at $70, with them needing about maybe $40 billion at least to keep the subsidies going, they are not going to be able to circumvent.

Second, the regime is now shaken to its core. And some of the leaders inside Iran, though they cannot yet publicly come out and say it, are suggesting that this sword must be held over their head for the regime to know that there is a limit of what it can do to the Iranian people and that the world is willing to stand with the Iranian people if the regime doesn't back down.

I am hearing for the first time—in fact, just before I came here, I talked to someone, and that was precisely the position that they had. And this is someone who is a very important member of the opposition inside Iran.

Chairman BERMAN. Professor Kittrie, you wanted to get into this, I think.

Mr. KITTRIE. Thanks, yes.

With respect to our allies and the impact that this might have on them, we have seen, very interestingly, an example with Under Secretary Levey, who has been talking to banks all across Europe, and those banks have been getting out of the business of doing business with Iran. And there hasn't been a rally-around-the-flag effect in Iran, nor have our allies particularly complained aggressively.

I think we will see the same thing if the Iran Refined Petroleum Sanctions Act is passed. In fact, there is just a handful of companies that supply gasoline to Iran. One of those that supplied, British Petroleum, already got out. When, frankly, Chairman Berman and Congressman Sherman and some others started making a fuss about this issue last fall, British Petroleum got out.

Total, I know, I know is on the fence as to whether to get out or not. Reliance, the Indian company, got out for 2 months earlier this year and got back. These companies are on the verge of getting out of this business. They will get out, and I don't think their governments are going to make a big fuss about it.

Mr. FLAKE. Dr. Rubin or Sadjadpour?

Mr. SADJADPOUR. Thanks for your thoughtful question, Congressman.

I would say that in a couple of years of being based in Iran and traveling throughout the country, it was very, very rare that—people always complained about the economic malaise, but when you would ask them why, they would complain about corruption and mismanagement. It was very, very rare that people would cite U.S. sanctions as the root of their economic problems.

I would support unequivocally sanctions or prohibitions on companies like Siemens Nokia, which have provided the Iranian regime repressive technologies. Unequivocally, I would support that.

And, lastly, I keep going back to this issue of oil. And I recognize that, you know, sanctions are something that you in the Congress can do. But, again, just the statistic is quite startling, that a $1 drop in oil prices is about $900 million lost in annual revenue for Iran. And if we really want to hurt this regime, I think a precipitous decline in oil prices would be the best way to do it.

Chairman BERMAN. The time of the gentleman has expired.

The gentleman from Arkansas, Mr. Boozman.

Mr. BOOZMAN. Thank you, Mr. Chairman.

I appreciate the testimony. I think it has really been very helpful to help us understand what is going on.

I think we all agree that, certainly, there is unrest over the economy, freedoms, and the list goes on and on. I guess I don't see any evidence at all, though, that with the regime change, with the current regime change that might be coming on board, that that group will renounce nuclear weapons.

Some of our allies have said that this is going to happen within the next 6 months, that they are right on the verge. So I believe in going forward vigorously with talks, sanctions, et cetera. But the reality is, none of that has worked in the last 5 or 6 years, and we are facing this very looming deadline. If Iran goes nuclear, all of our work on nuclear proliferation for the last decades will be down the tubes.

So with that being said, I would really like for you to comment. I support, if Israel feels like it, it needs to defend itself based on what Iran has said it is going to do with nuclear weapons once it acquires it. I support them 100 percent if they feel like they need to go forward and defend themselves.

What I would like to know from you all is what you feel like Hamas and Hezbollah in Iran will do in retaliation. And then, again, how important it is that we as a Congress, we as an administration resupply and do what it takes to help Israel during those very crucial hours after that happens.

We will start with you, Professor Kittrie.

Mr. KITTRIE. Sure. Thank you.

You raise the option of an Israeli military strike on Iran. I mean, it is not a good option. Nor is a U.S. military strike on Iran a particularly good option. I certainly wouldn't recommend them today. Although, on the other hand, the only thing worse than a U.S. Military strike on Iran would be a nuclear-armed Iran.

The challenge is that, if you go in and try and take out Iran's nuclear program, you really have to do the job right. There are a lot of sites that are well-hidden. There are sites that we may not know about. And for one squadron of Israeli planes to go and drop a few bombs, it worked in Osirak; it may well not work with respect to Iran.

So if anybody is going to do a military strike, it would have to be the United States, because only the U.S. has the capacity, the manpower to do the job right.

Mr. RUBIN. Well, I just have three quick points.

The United States should not be the practice of sacrificing allies. That is not realism; it is just stupid.

Two, a nuclear Iran would feel itself overconfident. And one of the greatest threats we have to Middle East peace and security is overconfidence or states not understanding the others' red lines. After the 2006 Hezbollah-Israel war, the Secretary-General of Hezbollah, Nasrallah, said that if he had known how Israel would have reacted, he never would have launched the operation he did that started the war. The problem is, a nuclear Iran—Ahmadinejad and the IRGC and the supreme leader, surrounded by like-minded people, may be prone to overconfidence and miscalculation.

The last point I want to make which has direct relevance to both the popular protests which we have seen and the issue of Iran's ideology is that a lot of people say that, should Iran develop nuclear weapons capability, we could live with a nuclear Iran because

they are not suicidal. The problem is that, among certain portions of the people that would be in command and control, specifically within the supreme leader's circle and the IRGC, there may be people that are ideologically committed to the destruction of Israel.

Now, should there be a popular uprising when Iran has that nuclear capability, they may feel they have nothing to lose, with the calculation that "Look, we are done for anyway. And is the United States or Europe really going to retaliate against an already changed regime?" Therefore, it is essential for the peace and stability in the region that Iran not be allowed to get this far in the first place.

Thank you.

Mr. BOOZMAN. And with Iran having nuclear ability, then the Saudis and the whole region are going to feel threatened, aren't they, and also start the proliferation? We are already hearing, perhaps, deals with Pakistan and things like that, with the Saudis.

Mr. RUBIN. You are absolutely correct. It would be a cascade of instability, and the nuclear nonproliferation regime would be dead.

Mr. SADJADPOUR. Also, three quick points, Congressman.

I would slightly disagree with Michael here, in the sense that I think that what we have seen from the last 6 weeks is that this Iranian regime is incredibly odious, but it is not suicidal. On the contrary, it ruthlessly wants to hold on to power.

The second point is that the problem we have with Iran has far more to do with the character of the regime than its nuclear ambitions.

And the third point is that, if we bomb Iran, I feel that we could do serious damage to this opposition movement and alter its trajectory and further entrench these odious hardliners in Tehran.

Mr. BOOZMAN. So do you feel like Iran is serious about doing what it says, if they have nuclear weapons, to Israel?

Mr. SADJADPOUR. What do they say they are going to do?

Mr. BOOZMAN. I think they have made it clear that they don't feel like Israel should exist. And Israel is probably a one- or two-bomb country.

Mr. SADJADPOUR. Well, they have never articulated a policy of military destroying Israel. They articulated a policy of a referendum in Israel, which is essentially——

Mr. BOOZMAN. So, for you, that is way too far of a stretch, if you felt——

Mr. SADJADPOUR. Again, I would just simply reiterate that the problem we have with this regime, in my opinion, is the character of it, not its nuclear ambitions. And if we bomb the regime, we are going to extend its shelf life indefinitely.

Mr. MILANI. I think, first of all, whether it is Israel or in conjunction with the United States, the United States will be blamed for it. No one in Iran or in the Middle East believes, whether right or wrong—there is, as you well know, a prevalence of conspiracy theories, where people will believe that the United States is complicit in it.

I think it would be the gravest mistake Israel has made. I think it would be counterproductive to Israel's security. I think it would be extremely counterproductive for the U.S. Thousands of U.S. sol-

diers sit within a missile strike of Iranian soldiers and Revolutionary Guards.

And I can tell you that, if they are attacked, they will respond. And there will be thousands of collateral damage. They know that this strike might come. They have fortified their bases. They have taken it and put it in some of the most sensitive places underground in the city of Esfahan. So you are going to have a lot of unfortunate collateral damage.

Chairman BERMAN. The time of the gentleman has expired.

The gentleman from Florida, Mr. Klein, is recognized for 7 minutes.

Mr. KLEIN. Thank you, Mr. Chairman.

And thank you. I appreciate you all being part of this panel today.

As has been stated by many of the colleagues up here and many of you as well, the choices of what the United States can or should do fall into a few different categories. I do support the notion of trying, recognizing that we may not succeed and we need to have our plans B and C, et cetera, in place. But, certainly, in terms of the discussions to stage and setting up, if necessary, for what would be the next stage would be significant or what I would call crippling sanctions, which I think would be appropriate.

I am from Florida, and I just heard recently that the company Vitol, the European company which apparently supplies over half of the refined oil to Iran, or gasoline, is constructing a $100 million fuel facility in Port Canaveral, Florida.

And, again, those are the kinds of transactions and investments that I think the United States needs to be concerned about. And if we are going to have a serious conversation of creating strong economic impact or the effect of an impact which will cause a change of behavior, not only throughout the United States, because we have limited capacity and involvement with them, but throughout Europe and Asia and other places.

My question—maybe I will start with Professor Kittrie and Dr. Clawson—is, how responsive do you think companies like Vitol will be if we pass legislation in the United States which says that you make choices, you either do business with Iran and you don't do business in the United States? How effective is that? How will a company like Vitol or others react to that?

Mr. CLAWSON. One problem we have had in the past is if other governments, such as European governments, think that our policies are utterly inappropriate, then they would encourage their companies to ignore our legislation and assure those companies that, in fact, they will provide political and economic cover for them to ignore what we are doing.

But what we have seen recently, with the actions of the Treasury Department, especially Stuart Levey, is that, instead, the attitude of European governments has been to say to European banks, "Well, the Americans may be a bit pushy here, but they do have a good point." And I think that that would be the attitude of a lot of European governments if we were to enact sanctions about refined petroleum products; is that, indeed, there are a number of European governments, some of the most important European governments, that are frustrated that smaller European states are

blocking EU action on this issue. And a number of the big European governments would be quite delighted to go to their companies and say, "You know, the Americans have a point here. You really ought to think about this one."

Mr. KLEIN. So your opinion is that the European governments may react favorably to this legislation. But, more specifically, these multinational businesses that are making their own decisions—some of which are impacted by governmental authority and some are not.

And I guess the question with a company like Vitol—I am just using them as an example, though—is, if you have millions, hundreds of millions, possibly billions of opportunity to do business in the United States, these are behavior—they obviously have to weigh that against the rest of the world and what they are going to be doing.

Mr. CLAWSON. Well, in a situation where your home government says to you, "We are going to get the Americans off your back; we are going to really threaten the Americans if they try to go after you," then the company will say, "Well, we can ignore what the Americans are doing because we will be protected." But in a situation where their home government says, "You really ought to listen to what the Americans are saying," then the company will say, "Uh-oh, we better change our policies."

And I think we are much more in that latter situation than we were in—the former situation is was prevailed with regard to the Iran-Libya Sanctions Act in the 1990s. And we are not in that situation at all now, not at all.

Mr. KLEIN. Professor Kittrie?

Mr. KITTRIE. Yeah, I agree with the gist of what Dr. Clawson had to say. I mean, we have seen, in fact, that congressional efforts with respect to these gasoline suppliers to Iran have already begun to work. British Petroleum got out of the business of supplying gasoline to Iran. Reliance Industries, an Indian firm, got out of the business of supplying gasoline to Iran for 2 months earlier this year. And the press reports, the trade press reports, said it was due to the efforts of Congressman Berman and Congressman Sherman, due to their letters that they wrote to the Ex-Im Bank raising questions about loan guarantees.

With respect to Vitol specifically, they are a privately held Swiss company. They are in it to make money. If you put them to a business choice where it is clear that they are going to lose more business in the United States than the profit they are making in Iran, they are going to choose the U.S. market.

You mentioned Port Canaveral. Frankly, Los Angeles International Airport, LAX, buys some $600 million a year of jet fuel from Vitol. And if, you know, the L.A. City council that runs LAX puts Vitol to a choice, that by itself may be enough to get Vitol out of the business of supplying gasoline to Iran.

Mr. KLEIN. Okay. And as a follow-up to the question, sanctioning suppliers of refined petroleum—obviously, refined petroleum is an important issue for Iran because of their capacity. Do you recommend this sanction?

Let me quickly just go down the row, if we can. United States Congress, do you recommend that we lead on this sanction of limiting refined petroleum entering into Iran?

Mr. KITTRIE. Oh, yes, absolutely.

Mr. RUBIN. Yes, absolutely.

Mr. SADJADPOUR. I would say I am not there yet until the opposition has reached that point, but I think they are getting there.

Mr. MILANI. I approve it in precisely the manner that the chairman indicated, as plan C. After plan A and B fails, then the plan C is certainly called for. And I think, by then, many Iranian democrats will be calling for it, as well.

Ms. MALONEY. I think, unless you have figured out a way to deal with the Chinese—and that would be part of your plan B, but also needs to be factored in here—you are likely to spark a trade war with the Chinese as a result of this. And I am not sure that is what the U.S. economy needs. So I am not in favor of it.

Mr. CLAWSON. Give the President the authority so he can use this as an important part of the way that he bargains with the Chinese and others for multilateral sanctions to much to the same end.

Mr. KITTRIE. Let me just point out, China provides no refined petroleum to Iran——

Ms. MALONEY. They are in talks to upgrade a number of Iranian refineries right now.

Mr. KITTRIE. They are in talks to upgrade them, but currently they provide none.

Mr. KLEIN. Thank you, Mr. Chairman.

Chairman BERMAN. All right, thank you.

The gentleman from California, Mr. Royce, is recognized for 7 minutes.

Mr. ROYCE. Thank you, Mr. Chairman.

You know, Ahmadinejad once made the comment that "I pray to God that I will never know anything about economics." And based on the inflation rate at 20 percent and the official statistic now of 30 percent unemployment, it looks like his prayers have been answered.

And the question I have is, there seems to be a growing consensus that petroleum—and I know it can be a lynchpin for this reason. I have seen a clip of an interview in Iran of cars backed up for 4 hours. And one of the fellows in line who is being interviewed says, "You mean this regime has millions of dollars to send to Hezbollah, and we are standing here in this gas line for 4 hours without petrol?"

It seems to me that this would be a lynchpin in this. But I am wondering what else could be a chokepoint, in terms of affecting that kind of an attitude, creating that kind of animus. We have examined other concepts for something along the lines of a South African-type, apartheid-type sanctions. What do you think would really do the trick?

Dr. Clawson?

Mr. CLAWSON. A ban on travel by the families of the key regime figures, many of whom go on regular shopping trips or other trips to Europe. That is something that the United States and Europe can act on together. These people are not interested in going to Moscow for shopping. They want to go to Harrods.

There is precedent for what we and the European Union did together with regard to the former Yugoslavia, where we, by the end, acting outside of the United Nations, had banned the travel of 600 named individuals, targeting regime figures.

Mr. ROYCE. I think that is a great concept.

Go ahead, Doctor.

Mr. RUBIN. Thank you very much.

Before, it was talked about perhaps one should sanction Nokia and the other companies which are contributing to Iran's ability to repress. You don't need any sanction there. If the President and Congressmen and Senators would publicly name and shame these companies, it would have great effect. Generally speaking, public exposure of corruption is a theme which resonates inside Iran.

And when it comes to credibility, for example, of U.S. outreach, oftentimes the regime will say, "Oh, what the United States is doing is just propaganda." But instead of the Open Source Center, for example, simply translating and distributing national press, if it focuses on the local press, if it reads back verbatim, word for word, stories of labor movement strikes and other instances of local corruption, amplifies local stories into international stories, the Iranian Government cannot say that that is simply external propaganda, because all you are doing is reading back its own press but on a national level.

Mr. ROYCE. Let me make another observation. We have Iran spinning 5,000 centrifuges, and I guess soon it is going to be 7,000. So that is reality, that is a nuclear weapons program. And Iran continues this relationship with North Korea.

So let me ask a question. There has been a lot of well-documented evidence in terms of the proliferation between the two. India forced down that plane that was carrying, presumably, missile parts to Iran from North Korea. And we understand the North Korean motivation for this: It is cash.

But let's look at it from the other perspective, because that is something I don't understand. What is Iran's motivation for its technology transfer and its engagement up in North Korea? Is that technology, or is there something else?

Nobody has commented on this relationship, and I just wondered if there is any perception as to what the incentive is on the Iranian side for this.

Mr. MILANI. You know, if the regime makes the decision—and I don't think they have made it yet—to go from becoming a virtual nuclear state to an actual nuclear state, in other words if they decide to weaponize, then they also have to decide to find a way of delivering that weapon somewhere. They need missiles. And I think North Korea has been very much helping them in developing the kind of technology that allows them to put a warhead on and deliver it.

Mr. ROYCE. So the North Korean experimentation with three-stage ICBMs and miniaturization on nuclear warheads is something that, apparently, Iran is attempting to—is there kind of a consensus that that is probably the rationale for this relationship?

Mr. CLAWSON. The North Korean rationale seems to be money.

Mr. ROYCE. Right. That I understand.

Mr. CLAWSON. But the Iranian rationale, as Dr. Milani suggested, is that this is a powerful way for them to get access to technology they would like. I mean, they would much rather have that technology from other sources, and they turned to the North Koreans because they can't find anyplace else.

Mr. ROYCE. And the specific technology that is in question here are three-stage ICBMs, the long-range ICBMs, and miniaturization to put it on that kind of an ICBM.

We are cutting back on our strategic defense initiative, at this point. It would seem like an inopportune time to do so, given not only North Koreans doubling down on their efforts to develop this capability, but the presumption now that perhaps the transfer of that potential capability to Iran would give the Iranians long-range delivery capability.

Mr. RUBIN. Correct.

Mr. CLAWSON. This regime has been very excited about what it describes as its space launch programs. And so we see every reason to believe that the regime is interested in developing very long-range missiles. And that would be technology which would be ideally suited for carrying a nuclear warhead that long distance.

Mr. ROYCE. Yes, Doctor, go ahead.

Mr. RUBIN. Indeed, there are many reasons why we continue to doubt Iran's explanation that their nuclear program is intended for civilian use only. It is not just their trade with North Korea for nuclear technology. There are a number of other factors, as well.

Mr. ROYCE. Thank you, Mr. Chairman.

Chairman BERMAN. Thank you. The time of the gentleman has expired.

The gentleman from California, Mr. Costa, is recognized for 7 minutes.

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

One of you mentioned earlier today, likened this regime to the Sopranos. If we reflect on that as an analysis, I mean, organized crime reached its heyday in the 1920s and the 1930s, but we spent another 50 years, some would argue still today, combating organized crime. I am not so sure we have the same luxury in terms of dealing with this regime over that kind of a time period.

I want to move from sanctions a bit and talk a little bit about some of the other influences in the area. First, the other Arab states in the neighborhood. Are we, either formally or informally, using all the tools available?

I mean, certainly, if, in fact, the result of it is a nuclear weapon in Iran, we know that there is going to be a reaction to that with the other Arab states. Are they as focused on this as we are?

Yes, Mr. Rubin.

Mr. RUBIN. The other Arab states are certainly, especially in the Persian Gulf, are very cognizant of it. The problem is that if they do not believe that we are serious, if they do not see an effective effort for sanctions and other reasons, then they will come to the conclusion that they have no choice but to accommodate with the Islamic Republic of Iran. Therefore, our intentions should go beyond dialogue. And I should say that organized crime wasn't simply defeated by talking to them.

The other issue which we need to focus on is the continued pursuit of the Gulf Security Dialogue, which—George Bush relaunched an initiative that had been initiated by the Clinton administration. And the basis of the Gulf Security Dialogue isn't just talk; it is to enable the Persian Gulf emirates on the other side of the Persian Gulf, the Arab states, to better defend themselves, to better implement containment.

And this is what we had talked about before, when it comes to what is taught in our U.S. military academies, the DIME paradigm, where every component should have a diplomatic, informational, military, and economic component. And when I talked about "military," I am not talking about bombing. I am talking about containment, and I am talking about deterrence. And that actually amplifies diplomacy, when they are all done in conjunction.

Mr. COSTA. And you don't think this administration is using all of those elements in this strategy?

Mr. RUBIN. No, the problem with this administration, in my opinion, is that we are prone a little bit too much toward sequencing rather than using these multiple aspects of strategy in which the sanctions bill will play a part to amplify the diplomacy and to amplify the package as a whole.

Ms. MALONEY. Let me just disagree with that, because I don't think that, at this stage, we are in a position where we can say we are holding back with the Gulf states.

The Gulf Security Dialogue, launched by the Bush administration, was, for all intents and purposes, an arms sales package, massive arms sales package, which obviously has its role in reassuring those states. We didn't ask anything in response from them, in terms of their support either from the Iraqi Government, for example, or their support for tougher sanctions against Iran. It was a gift, and I believe it served a purpose.

This administration has been very up front in going to the Gulf states, talking to them about Iran, about ensuring the continuing defense cooperation that is an integral part of our regional strategy.

Mr. COSTA. And, on that point, to the other gentleman's notion, do you think they believe that we are serious?

Ms. MALONEY. I think they do believe that we are serious. On the other hand, their long-time—it predates us, predates this regime in Iran—their strategy for dealing with local threats is balancing. And so they balance their relationship with the United States with a continuing relationship with the Iranians.

They are not prepared to cut off their nose to spite their face. They are not prepared to break ties with Tehran. They are not, in the case of most of the smaller Gulf states, prepared to engage in serious economic pressure on the Iranians, because it would have direct and very problematic impact on their own economies.

And so I think we have to recognize that we need to help reassure them, but if we are looking to do more to pressure this regime, we are going to also have to ask more from the Gulf states.

Mr. COSTA. And you think we are doing that?

Ms. MALONEY. I don't believe that we are there yet. I think that those conversations occur, but, obviously, you know, the focus of efforts so far of this administration has been on engagement. But,

notably, obviously, Dennis Ross, who is the Secretary's envoy for this issue, his very first international trip was to the Gulf states.

Mr. COSTA. Yeah, quickly, Mr. Sadjadpour, because I want to move into another direction.

Mr. SADJADPOUR. I agree with Suzanne's point. And I would simply add that I fear that many of the Persian Gulf countries, the smaller ones, don't necessarily share the United States' interest, meaning I think the United States would love to see a more progressive, democratic Iran emerge. I think the——

Mr. COSTA. Which is not necessarily in their interest.

Mr. SADJADPOUR. Exactly. They don't necessarily want to see Iran emerge from its self-inflicted isolation.

Mr. COSTA. And they are probably not so sure about the consistency of our policy.

Mr. SADJADPOUR. Of the U.S. policy?

Mr. COSTA. Right.

Mr. SADJADPOUR. Well, I think that, in many ways, they want to see the status quo ante. They want to see a beleaguered, isolated Iran. They don't want to see Iran get bombed, and they don't want Iran to get the bomb.

Mr. COSTA. Well, let's talk about internally. And I know there have been comments about it earlier, with regards to the elections and the protests since the elections. And the comments of Rafsanjani and some of the others seem to be rather outspoken in this aftermath of the election.

Where do you think this is all going, in terms of—I mean, obviously, there seems to be a challenge for power among the council. And how does this play out? I mean, I think it is fascinating from an outsider, but we are not in the inside. And this, obviously, isn't a transparent process.

Mr. MILANI. I think there are two tracks to watch. One is the Mousavi track, to watch what the popular people will do, led by Mousavi and Khatami. And Khatami's recent announcement that there should be a referendum is truly a remarkable statement coming from him.

Mr. COSTA. Is that getting reported throughout the country?

Mr. MILANI. It is very much reported. And he has already received literally a death threat by the Keyhan, which is a mouthpiece of Khamenei. Shari'atmadari is the editor, and he has already written an editorial saying that this idea is concocted in Washington. In fact, he attributed it to a commentator here, Michael Ledeen. He said this idea came from Michael Ledeen. And that Khatami will pay a very heavy price, Khamenei also threatened.

But in Rafsanjani's speech, there was a very key sentence. He said, "Everything I am saying I am saying after consulting with people in those two clerical bodies." Both of which he leads.

Mr. COSTA. In other words, he has more support.

Mr. MILANI. Absolutely.

Mr. COSTA. If I might, one more question, Mr. Chairman?

Chairman BERMAN. Actually, the time has more than expired, so I think——

Mr. COSTA. Thank you.

Chairman BERMAN. Yeah, the time of the gentleman has expired.

The gentleman from Texas, Mr. Poe.

Mr. POE. Thank you, Mr. Chairman.

Thank you for being here.

I am a believer in self-determination. I commend the Iranian people for speaking out. I admire them for that.

I think it should be clear that America's quarrel is not with the people of Iran; it is the way they are being treated by their own government and run roughshod, black-booted thugs killing Iranian citizens on the streets.

My concern is how we approach that from an official point of view. I mean, the Iranian Government blames us for all the unrest anyway. After the crooked elections, we took—the administration took I think somewhat of a soft approach on what took place over there, that it was unfortunate or whatever. Would it help—this is an opinion question for you—would it help with the issue of self-determination if the United States was more vocal in supporting the people of Iran in determining their own destiny?

Dr. Rubin, you are looking at me first, so go for it.

Mr. RUBIN. Generally speaking, if the United States uses its bully pulpit in a very careful manner and talks about how we value freedom, we value liberty, we value the ability of elections to matter, that is very important. We should not get into the nuts and bolts of specific opposition figures, especially since we have a habit of misidentifying who the opposition figures truly are. But there is no reason why we should be ashamed of moral clarity.

Mr. POE. All right. Anybody else want to weigh in on that?

Yes. Dr. Clawson, go ahead.

Mr. CLAWSON. Actually, the regime in Iran has been blaming the Europeans much more than blaming us, and particularly blaming the British.

Mr. POE. They never liked the British.

Mr. CLAWSON. Very true. But it was also intriguing, the considerable contrast between the statements of the Chancellor of Germany and the President of France with the President of the United States; and it is an interesting situation when we see the French President being much more active, supporting a stand of principle than the United States President.

Mr. POE. So my question is, if we were more vocal, the bully pulpit, for example, idea, would that help that country have self-determination? That is my question.

Mr. CLAWSON. Certainly the leaders like Khamenei believe that is the case.

Mr. POE. All right.

Mr. CLAWSON. And I suspect he knows his country better than I do.

Mr. POE. All right.

Mr. SADJADPOUR. I like Michael's term about moral clarity. These themes which universally resonate of justice and freedom without anointing a particular party or individual I think are the right way to go. I think we should continue to condemn human rights abuses. There is even a U.S. citizen now languishing in Evin prison, Kian Tajbakhsh.

And I would also add—this is in response to some of the questions earlier—that we should also try to provide the Iranians the means for self-determination, meaning now communications—they

have great difficulty communicating. Internet is down. They are not receiving news from the outside satellite broadcasts. Anything we can do to help lift that communications embargo I think would be a great service to them.

Mr. POE. My next question is the protests since the election. Do you think that this is going to—is this a flash in the pan or is this going to be a continuous opposition to the government? I am not talking about the players, so to speak, and the different leaders. But is this something that is going to keep going or is this just something that happens in the summer? Dr. Rubin?

Mr. RUBIN. Iran is a tinderbox, and it has been a tinderbox for some time. The issue is whether the Iranian Government is better at putting out sparks than—and if the sparks will get out of control. Some people like Rafsanjani want to preserve the regime but want a controlled burn. Ultimately, this is why greater U.S. attention to the state and the factions within the Islamic Revolutionary Guard Corps and the security forces becomes so important.

The problem with muddle-through reform is that if you are the Supreme Leader—and we don't want to engage in projection. He may really believe that sovereignty comes from God, not the people. Therefore, it doesn't matter what 90 percent of the people think. Then you are not going to be responsive to the will of the people. The question for U.S. policy should be, how can we create a template upon which the Iranian people can take action in their own hands?

Mr. POE. Dr. Milani?

Mr. MILANI. I don't think this is a flash in the pan. I don't think this is the 1999 student movement, where they can throw a few thugs and throw some students off the fourth floor and quiet it down. This is a much larger movement in terms of a social base; and it has enormous support amongst both stalwarts of the regime like Rafsanjani, Khatami, and the clergy.

We haven't talked about the clergy. Many of the most influential Shiite clergy have said either nothing in support of Ahmadinejad or have taken Ahmadinejad and Khamenei to task. They are an enormous force that I think indicate—their silence indicates that the rift is much bigger and the problem is much more serious than a flash in the pan.

Mr. POE. The opposition, different factions—and without giving me how many you think there are, are the opposition to the government—are they generally united or are they independent entities all in opposition?

Dr. Milani, what do you think?

Mr. MILANI. I think the opposition right now is clearly united inside Iran around the issue of the election, around the issue of the fairness of the election, and around the issue of the overreach of Mr. Khamenei and his Revolutionary Guard cohorts in making this coup. The demand of the opposition is to turn this coup back and create a more democratic, less despotic personal government. I think everybody is in agreement with that.

Mr. POE. I think the best hope for Iran, in my opinion, and the best for the Middle East and the United States, is a regime change, without going into dealing with the issue of nuclear weapons.

And I will yield back the rest of the time that I don't have.

Chairman BERMAN. Such as it is.

The gentleman from Georgia, Mr. Scott, is recognized for 7 minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

First of all, Dr. Milani, I felt that you gave a very descriptive, very riveting analysis of describing the situation and the volatility and the precariousness that Iran is in as a result of this crisis from the election. But my concern is that we interpret this uprising, this revolt properly. And I think it would be good for us to examine why and examine it from the perspective of the people who are doing the uprising and not just automatically assume that they are rebelling against what has become the standard attitude toward Israel or the standard attitude toward developing nuclear weapons.

So I would like to find out from each of you to what degree is this crisis and this uprising and this surge for liberty and democracy and the revolution against this—revulsion against the election returns has to do with their dissatisfaction of Iran going down a nuclear track and Iran's very professed disdain for Israel?

So if we can say that the reason they are upset is not just because it was a bad election but because we, the people of Iran, are not interested in pursuing a nuclear weapon—and I don't know if that is the case or not—or we in Iran, the people in Iran, we are upset and our crisis is because we don't like this attitude against Israel.

So I would like to get your comments, and each of you, because these are the issues that concern us. We don't want them to get a nuclear weapon. We don't like their attitude toward Israel. What degree of this uprising and disdain and crisis can we take from this to support our two interests?

Mr. CLAWSON. Sir, I don't think anyone is on the street in Iran because of the nuclear program or because of Israel. But they are on the street because they would like to see Iran reintegrated back into the world and better connected with the world, and they don't want to see their country isolated from the world. That is the issue for these people. And that is true about cultural isolation; it is true about political isolation; it is true about the difficulty of travel; it is true about economic isolation. They don't want to be isolated from the rest of the world.

And if in that context then being seen as supporting terrorists and being seen as having an unacceptable nuclear program is part of this isolation and much as many people in Iran who are out there on the streets who think it would be good for Iran to have nuclear weapons, if they have to give up much of the nuclear program in order to end their isolation from the world, I don't think it is going to be a tough call for them. I think they would be prepared to do that.

Mr. SCOTT. Okay.

Mr. MILANI. I refer again to a poll that was done, a poll that was done by a group in Washington. It is as close to a scientific poll—it had a flaw. It was done outside from phone. It had that flaw. But they talked to about 1,000 people. Fifty-two percent of those asked said Iran should recognize the State of Israel. Ninety percent said Iran should make all the necessary—give all the necessary guaran-

tees to the West that its nuclear program is not military in return for scientific cooperation.

As Patrick said, Iranians want to join the world. There are 24 million Internet users in Iran. There are 500,000 bloggers in Iran. This is not a country that can be ruled by a medieval ideology that says I speak for God. They want that change, and they want to come to the rest of the world and join the 21st century.

Chairman BERMAN. Dr. Maloney wants to respond.

Ms. MALONEY. Let me jump in and just add that I am from Boston, so I live by the maxim that all politics are local. To what I can interpret—obviously, none of us were in Iran for the protests, so we are all looking through the glass darkly—most Iranians were provoked to take action that they haven't taken in the past because of the simple outrage of the just blatant rigging of the election. And this speaks to how important the electoral process is for Iranians, how important the tradition, this 100-year-old tradition of constitutionalism is in this country and how even elections that were never fully free and fair provided a voice for Iranians that they valued. And when that was taken away from them, they were prepared to go to the streets in a way they never have before.

Mr. SCOTT. Okay. Yes.

Mr. RUBIN. I would certainly agree that all politics are local. The issues here are both the Iranian people and the United States Government face a common adversary in the Iranian state security apparatus, albeit for different reasons and different interests.

That said, we have seen protests over the years. The teachers union protesting in Tehran under the banner "forget about Palestine and think about us." In 2006, there were protests when the Tehran government wanted to send money to Lebanon after the 2006 war. This is one of the reasons why I do think it is essential that the United States doesn't miss another Lech Walesa moment and we do support the growing and nascent independent trade union movement inside the Islamic Republic of Iran in order to force the Iranian regime to become more accountable to its people. It is in both our interests and theirs.

Mr. SCOTT. And my final remark is that I hear this, but, on the other hand, you are saying for the United States not to get involved. I think that was the consensus before we left to go to vote. It was stay away. I mean, don't interfere at all.

Mr. RUBIN. That is not—so there is no consensus.

Mr. SCOTT. Oh, you were the only one then.

Mr. RUBIN. I don't know.

Mr. SCOTT. Wasn't that the consensus, that our best deal here is to allow this thing to work out?

Chairman BERMAN. There was a majority view of let the Iranian people own this, not us. That may have been a consensus view. But the notion of detachment totally may not have been a consensus.

Mr. RUBIN. Correct.

Mr. CLAWSON. I think we probably all support Michael's call for an endorsement of moral clarity and principles. We would all say that we should be actively supporting our principles, not just things we see in the G–8 statement and so on.

Chairman BERMAN. I think the time of the gentleman has expired.

The gentleman from New Jersey.

Mr. SMITH. Thank you, Mr. Chairman.

Chairman BERMAN. Mr. Smith.

Mr. SMITH. Thank you for assembling an excellent panel and for an outstanding hearing, which has brought a lot of clarity to this debate. So I thank each of our witnesses for your testimony.

A few years ago, I read a very disturbing and a very insightful book by Edwin Black called, "IBM and the Holocaust." In his heavily footnoted book, the author points out that, beginning in the early 1930s, Nazi Germany was significantly aided and abetted in its plan of conquest and genocide by IBM and its subsidiaries. IBM helped Hitler to create the Hollerith punch card technologies to identify Jews so they could be targeted for asset confiscation, deportation, ghettoization, slave labor, and finally extermination.

And the question was often asked, where did Hitler get all the names? Well, IBM provided that and helped the Nazis develop that capability.

It is well-known today that certain governments are using modern technology, including technology from the United States, to violate fundamental human rights. We have had several hearings in this room on the shameless collaboration of certain Internet giants, from Google to Yahoo and others, in aiding and abetting the Chinese dictatorship. As a matter of fact, I have introduced legislation, the Global Online Freedom Act, which is designed in part to compel at least transparency as to what they are doing; and hopefully we will mark that up soon or some day.

On June 22nd, the Wall Street Journal reported that Siemens—and a couple of our distinguished witnesses have already made mention of that—and Nokia during the latter half of 2008 provided the Iranian regime with the capability not only to block communication but also to monitor it and to gather information about individuals and to alter that information in order to spread disinformation. This sophisticated system, which the Wall Street Journal characterized as the world's most sophisticated system for controlling and censoring the Internet, was used, as we all know, to suppress the uprising after the fraudulent elections.

On the same day, the Wall Street Journal reported that Siemens, again enabling the Iranian Government, had reported that the company expected to land some $21 billion worth of stimulus contracts globally, of which some $8 billion would come right from the United States. And, as we know, several California politicians and Iranian human rights advocates are trying to pressure that Siemens not be awarded hundreds of millions of dollars in sales at the L.A. Metropolitan Transportation Authority, which I think sends a very clear message; and I hope they succeed.

But I would deeply appreciate—since there is so much stimulus money in this country and abroad in the pipeline, that money is almost assuredly going to be spent—what your views would be on limiting those dollars from going—as we can; hopefully, other countries will do the same, which would be my view—to companies like Siemens.

Because the complicity with the Iranian crackdown obviously hasn't stopped. You know, the communications center continues

and e-mails are being interrupted every day. Information is being gleaned from it and used in a repressive way by the regime.

I would appreciate all of your thoughts on that. Should we limit our stimulus money or other contracts as well to companies like Siemens?

Mr. MILANI. First of all, a point of clarification. I wrote a letter to the office—the MTA office objecting to it and threatened that I would write a letter to the editor in the L.A. Times. I got a letter back saying that they are not about to give Siemens anything, that the deal is something else, and it is with a different company.

But I 100 percent agree. I think it would send an incredible message to the Iranian people if you could sanction a company like Siemens. If people in Iran learn that companies that are complicit in this regime's crimes get punished, that would be the most invigorating message that that democratic movement can hear.

Now whether it is possible to do it or not, you folks know that much better than I do.

Mr. SADJADPOUR. I would just simply second Abbas' comments and say I would also unequivocally support a prohibition of repressive transfers of technology to regimes like Iran; and I think it would send a wonderful signal if Siemens, Nokia—McAfee is another company—would be censured and punished for this.

Ms. MALONEY. Let me just at least suggest an additional or even alternative route, which is that, you know—and I am not a tech person, but I think one of the difficulties with dealing with technology is it is constantly evolving. And whatever we preclude the Iranians from getting today, they will be able to develop or get their hands on. And I would suggest that the bulk of our efforts in this regard should be focused on finding alternative ways for Iranians to communicate and providing that to them to the extent that we can.

I know that there are a lot of people with Internet expertise and particularly in the Iranian American community in California who have already begun talking about this, and there were likely efforts under way even before June 12th. But, you know, providing mechanisms for Iranians to communicate with one another that evade whatever technology their government is able to get its hands on—because, you know, we may block Siemens, but we may not be able to block the Chinese and Russians, who can provide similar technology.

Mr. KITTRIE. I agree wholeheartedly with the gist of what you are saying.

I also happen to think that we should be looking to help the Iranians find other ways of communicating. But the fact of the matter is that there are certain technologies that are cutting edge. There was a study recently, two-thirds of Iranian industry depends heavily on German machinery. If Germany stopped exporting, stopped servicing that machinery, the Iranians wouldn't be able to turn to—you can't just put a Russian part in a German machine.

I think it is a great idea that we put companies to a choice between the United States market and the Iranian market, and then we consider doing that as well with the stimulus funds. I think that would be a very powerful tool.

Mr. RUBIN. I also agree with the gist, in addition to which we don't need to enact any legislation for the White House to become much more active in naming and shaming these companies.

The other point I would make—and I concur with Dr. Maloney with regard to providing independent media. I would note that while in the previous administration the Iran Democracy Fund was quite controversial, the plurality of money in that went to Radio Free Europe and Voice of America's television and radio; and it is important that that not be withdrawn.

Chairman BERMAN. I thought it went to polling.

Mr. RUBIN. The Iran Democracy Funds.

Chairman BERMAN. Yeah.

Mr. RUBIN. Oh.

Chairman BERMAN. The time of the gentleman has expired, and the gentleman from——

Well, first, I want to say people here are grandfathered in. Anyone else who straggles in now, not going to be recognized. At some point, we have to show some mercy to the panel and to the chairman.

Mr. Ellison. In other words, Ellison, Pence, Sherman, Berman, and Costa for 1 minute each. Mr. Ellison.

Mr. ELLISON. Thank you, Mr. Chairman; and thank you to the panel.

Given that President Obama's projection in terms of when negotiation or engagement will have run its course as being September was before the new political situation we see with the election, do any of you think that we might delay that deadline and sort of take that deadline off the table and sort of begin counting, if ever we want to do that counting, after the political environment has settled down? Mr. Rubin?

Mr. RUBIN. Very quickly, the issue isn't just the deadline. The issue is that neither the Obama administration nor the Clinton State Department has not indicated the metrics by which they are going to judge that engagement.

Mr. ELLISON. Yeah, Mr. Rubin, that is a good point. But I only got 7 minutes. So is there anybody who wants to answer the question I asked?

Mr. CLAWSON. The problem we face is that the nuclear program is advancing; and if we let this issue slide until the dust settles, we have got a real problem, especially with our Israeli friends, who are already very nervous.

Mr. ELLISON. I will take that as a no.

Mr. CLAWSON. I am saying we are stuck between a rock and a hard place. Because it is going to be very—I would agree with my colleagues that engagement now is tough to do and that there is much reason to wait for the dust to settle. However, hopefully, that is not nuclear dust. And the problem we face is——

Mr. ELLISON. I think we all understand that. I get that. But I just want to——

Does anybody think that, given that this timeline was set forth before this new situation, should we consider this September deadline as sort of a—should we be more flexible with that, understanding some of the points that have been made already? Mr. Milani? Dr. Milani, excuse me.

Mr. MILANI. I agree with you. I think the September deadline was an arbitrary deadline, and I think it is going to be impossible to imagine that from now until September anything substantive can happen between Iran and the United States, particularly because I don't think we still know who we will be engaging with in Iran. I think it is unwise to engage with Iran before we know who it is that is in power.

Mr. ELLISON. Dr. Sadjadpour?

Mr. SADJADPOUR. I would agree with what Abbas just said. And I will say that probably a better approach would be to—instead of rushing into engagement so we can meet the September deadline for failed negotiations in order to then pursue crippling sanctions which will foment unrest and create fissures among the regime, that already exist right now, the agitated population and the fissures. And let's let this process play out. Let's wait until the dust settles before attempting engagement.

Mr. ELLISON. My concern about rushing into negotiation now would be that they would inevitably fail, and then there is a real cost to failed negotiations. Because, in my subjective opinion, there are people who want war; and they would get what they want without ever letting negotiation really have an opportunity to succeed.

I just disclosed my own bias.

Let me ask this question. Has the 2003 NIE comment about weaponization been altered since—has that been revisited and reviewed and therefore changed—and thereafter changed since they made that pronouncement that the weaponization program ended in 2003? Have they revised and changed their perspective?

Mr. CLAWSON. You would know better than we what the intelligence community may have done.

Mr. ELLISON. No, I am not on that committee, so I don't——

Mr. CLAWSON. The intelligence community may have done.

May I point out they said in the NIE that they had a high confidence that Iran had suspended its program in 2003 but moderate confidence as to whether or not the suspension was continuing.

Mr. ELLISON. Thank you very much.

In terms of the weaponization in 2003, has that been revised and changed? Because, of course, there is this thing that some have already alluded to, which is this ticking clock. And I guess if they haven't restarted or if we don't have evidence that they have restarted, I mean, do we have—I mean, you know——

Mr. CLAWSON. Sir, I don't know anyone in the technical community who believes——

Mr. ELLISON. Thank you very much.

Mr. RUBIN. You might want to ask the IAEA, which——

Mr. ELLISON. Let's talk about the IAEA for a moment. The IAEA has recently indicated that their level of cooperation is not what is expected, but they have not—unless you guys can correct me—said that they have restarted a weaponization program.

Mr. CLAWSON. They haven't looked for one.

Mr. ELLISON. Ms. Maloney?

Mr. CLAWSON. They don't look for one. Since they don't look for one, they——

Mr. ELLISON. I would like to hear Ms. Maloney's opinion on this issue.

Ms. MALONEY. I think you get at the fundamental ambiguity that is the problem that we are all trying to deal with with the Iranian nuclear program, which is we don't know what we don't know, and the IAEA doesn't know what it doesn't know.

Mr. ELLISON. Right.

Ms. MALONEY. And there are many skeptics about the state of the Iranian weaponization activities, but at least the intelligence community assessment of 2007 still stands that this was stopped in 2003. The difficulty, of course, is that without that level of cooperation, without any sort of confidence——

Mr. ELLISON. I got it——

Ms. MALONEY [continuing]. And access to those facilities——

Mr. ELLISON. I am at 1:26. I am sorry. And I want everyone know my sharpness is not designed to comment on your view. I respect all of your views and thank you for them. But I have to move on, so I can get my questions answered.

Okay, we have had about 15 years of Iranian sanctions and about 30 years of limited—in deference to Dr. Rubin's point—limited engagement. It hasn't been total isolation. Dr. Rubin is right about that. But I would say limited engagement.

My question is, if we were to pass these crippling sanctions that have been talked about, could we impact the Iranian economy unilaterally, or does—have we sanctioned ourselves out of economic sanctions? Do we have any more cards to play against the Iranian economy or have they built a world around themselves such that they really don't need us very much?

I would like to know Mr. Sadjadpour's opinion on this.

Mr. SADJADPOUR. I think what will concentrate minds in Tehran is not when they wake up in the morning and they see there is an amplification of existing U.S. sanctions but when they see the Chinese and the Russians and Indians are not returning their phone calls. So certainly if it is pursued in a multilateral fashion I think it would impress them much more.

Mr. ELLISON. Dr. Milani, can we impact the Iranian economy unilaterally, or don't we depend upon the cooperation of the world community?

Mr. MILANI. I don't think the United States can unilaterally impact the Iranian economy. They don't buy much of its oil, they don't sell much to it, and unless there is——

Mr. ELLISON. Dr. Milani, I have to ask you a question real quick and forgive me for this. Can the United States gather the world community around—can I finish?

Chairman BERMAN. No. You got a lot of questions in there, but——

Mr. ELLISON. I was in a rush, and I appreciate everybody's indulgence.

Chairman BERMAN. It is past the time.

And the gentleman from Indiana, Mr. Pence, is recognized for 7 minutes.

Mr. PENCE. Thank you, Chairman. I want to thank you and the ranking member for calling this very timely hearing.

I want to thank this distinguished panel for your testimony today. I look forward to reviewing the balance of this hearing.

As the chairman knows, this is an area of profound interest to me; and I am grateful for the leadership and the intellect represented on the panel.

As I am sure this panel knows, quite recently Chairman Berman and I authored a resolution for the Congress that expressed the support of the people of the United States of America for Iranian citizens who embrace freedom, human rights, civil liberties, and the rule of law. It condemned the ongoing violence against demonstrators by the Government of Iran and by pro-government militias, as well as the ongoing government suppression of independent communication.

I want to take this public opportunity to thank Chairman Berman for the bipartisan and, if I may say, statesmanlike approach that you took to moving that legislation in an expeditious and substantive manner.

To this panel, I would say, as news comes to us of challenges from former leaders in Iran, reformers, to the hard line taken by Iran's Supreme leader, the question obviously before Congress and before the American people is the subject of this hearing. That is, what role will the United States play in a relationship with Iran and how might we best, I would add, expand the horizon of freedom in that nation by our conduct?

Now, I believe the American cause is freedom, and in that cause we must never be silent. Those of us who cherish that tradition of bold, pronounced rhetorical leadership on behalf of freedom in the world have been troubled, frankly, by this administration's first 6 months on the world stage. The President has traveled the globe, often apologizing for America's past. It seems to me that he has passed by a number of opportunities to advance the cause of freedom in the global debate. And this administration, I believe, has met each international crisis, whether it be in Honduras—the country of Honduras or Iran with an unpredictable foreign policy.

In the streets of Iran, hundreds of thousands of Iranian dissidents rallied to have their votes properly counted and their voices heard. Sadly, the Iranian Government responded with a violent crackdown of the dissidents. The administration's first response was not to "meddle in the internal affairs of Iran."

While the administration waited, Congress acted and spoke forcefully into the world debate, as did the EU, as did other countries. And while the President found his voice after Congress acted, the mixed message on our commitment to the freedom the people of Iran were clamoring for on their streets was regrettable. The President often says, "The arc of history bends toward justice." I would argue the arc of history does bend toward justice, but it also teaches us that weakness emboldens evil, and rogue dictators grow stronger when appeased.

Recently, Secretary of State Clinton, I believe speaking at the Council on Foreign Relations, reaffirmed the commitment of the United States of America to a policy of engagement; and I know it has been much of the discussion this afternoon. And I guess my question—I would direct it to Dr. Rubin, if I may—is the Secretary of State, I believe—although I don't have a copy of her speech in

front of me—she referred to a commitment to engagement with the leaders of Iran. She said Iran has the opportunity to be "a constructive actor in the region."

And I would just—I would ask you, Dr. Rubin, given your written testimony that I had a chance to review and your comment that the administration is going with sequenced policy, is it proper for the United States of America to denote who are the leaders of Iran in an engagement if the people of Iran by the millions have not agreed on who are the legitimate leaders of Iran?

And does it serve the interests of freedom, first for the Iranian people, and freedom in the world stage, for us to pursue engagement following a clearly discredited and fraudulent election, followed by violence, and one that I believe evidence in the news media in the last 3 days indicates continues to foment unrest within that country?

Mr. RUBIN. I would just respond with two points.

First of all, it is a fallacy to believe that engagement is a strategy that can be implemented without a cost. And with regard to who the leaders of the Iranian people are, I do think that it is important that we not snatch defeat from the jaws of victory and make the same mistake three times.

Mr. PENCE. In which respect?

Mr. RUBIN. With regard to siding with a government and against reform when the Iranian people had already made up their minds that that government no longer had popular legitimacy.

Mr. PENCE. I am going to startle the chair and yield back the balance of my time.

But I had that one question. I am grateful to the panel, and I do appreciate the voices of all the intellectuals on this panel. This is an extremely important question. The chairman and the ranking member I know are grateful for your time, and we will continue to avail ourselves of your thinking on this topic.

Chairman BERMAN. Thank you very much. The time of the gentleman has been yielded back; and the gentleman from California, Mr. Sherman, is recognized for 7 minutes.

Mr. SHERMAN. Thank you, Mr. Chairman.

We have engaged with Iran. We did so through our European friends. Throughout that process, for virtually every day, the centrifuges turned. If the Iranian powers that be were serious about negotiations, they would agree not to be going in the wrong direction while they were negotiating. They would freeze the centrifuges.

It will take years for sanctions to affect the Iranian economy, perhaps a shorter time to have some political effect inside Iran.

The gentleman from Minnesota talks—focuses on the NIE and weaponization. We had hearings in our subcommittee on nonproliferation, and a number of things emerged.

First, weaponization is very, very hard to detect. It can take place anywhere. Whereas the creation of the fissile materials is a major industrial process. So we don't know whether they have resumed weaponization or not. What we do know is weaponization is the easy part—not completely easy, but the easy part—and they could suspend weaponization until next year and still be very much on target to have a nuclear device by the end of 2012.

What they have to do to have a weapon by the end of 2012 is keep producing the fissile material. For that, they need the centrifuges; and the centrifuges are turning now. That NIE report buried in footnote number one the important aspect of the report and was perhaps deliberately designed to be misinterpreted.

It is true that all serious sanctions have got to affect the behavior of European and other foreign businesses. That is why all our sanctions bills are designed to affect the behavior of foreign companies.

Of particular note—and the chairman will agree—that those of us from Los Angeles also believe that all politics is local, and we have two very local things happening directly relevant to this hearing. I believe it is Thursday the MTA will vote whether to go with the contract I believe they have already approved but are reviewing again with an Italian firm, AB, or instead reject that contract and in effect give it to Siemens.

I hadn't thought of the MTA as a major foreign policy instrumentality of the United States, but I for one—and perhaps the chair will join me in this—will call our friends on the MTA and let them know the role that Siemens is playing in Iran.

The second is Vitol, a major supplier of refined petroleum to Iran, just acquired a company that has—I believe it is a month-to-month contract to provide jet fuel at LAX. So we could just in L.A. County have a dramatic effect on two of Iran's leading business partners. And I think it is particularly important that we do so. Because the front page of the Washington Times, the number one story was about Siemens, Iran, and the Los Angeles transportation system.

I don't believe in punishing European companies just for the joy of doing so. The purpose is to affect their behavior, and the best way to affect their behavior is in something that is widely publicized. Also, I think at least one of the witnesses says that is the kind of message that people in Iran would want to see.

I want to bring to the attention of everyone here H.R. 3284, which Mr. Royce, Mr. Klein, and I introduced based on a theft of intellectual property from Senator Schumer and that prohibits Federal contracts with firms that provide monitoring or blocking Internet equipment to Iran.

And that brings us to our friends Nokia and Siemens, and my question for the panel is that the Nokia Systems network Web site says that they sold Iran a product marketed as intelligence solutions monitoring center. They disclaim having provided more advanced technology. And perhaps one or two members of the panel would want to comment.

Do you believe Nokia Systems when they say they didn't provide the deep packet inspection add-on, and do you think we should give Nokia Siemens a pass if all they sold was an intelligence solutions monitoring center?

Do I see someone who wishes to respond?

Mr. Rubin. Dr. Rubin.

Mr. RUBIN. Sir, that would be like saying, if you were Nokia, that don't worry, we only shot the victim in the abdomen; we didn't shoot them in the chest. The net effect of it is the same, and it is quite unfortunate and shameful on Nokia's part.

Mr. SHERMAN. Nokia Siemens part.

Yes, Mr. Sadjadpour.

Mr. SADJADPOUR. I would just say I am not a technical expert myself, but I have spoken to several technology experts who disagree with Nokia Siemens' assertion that they simply provided this benign technology to the regime.

Mr. SHERMAN. They have been remarkably non-forthcoming with the press and others. They flatly say, well, we did only in the abdomen, but they have been unwilling to provide information about what they did to the victim's chest.

I would like to shift here. I don't know if anybody has the answer to this. What are the foreign cash reserves of the Iranian regime?

Mr. CLAWSON. About $80 billion.

Mr. SHERMAN. $80 billion.

Mr. CLAWSON. It is not clear how much of that is actually usable. There is some reason to think that, in fact, the usable reserves are more like $50 billion. And to what extent is Iran's——

Mr. MILANI. Could I add?

Mr. SHERMAN. Yes, Doctor.

Mr. MILANI. I don't think we have any clear indication that that is in fact the figure.

Mr. SHERMAN. You think corrupt officials may have kind of spent that without notifying anybody?

Mr. MILANI. Ahmadinejad has dipped into it several times and has dipped into it in spite of the law. And when members of the Parliament tried to look into it——

Mr. SHERMAN. Let me just interrupt with one thing. To what extent is Iran's credit rating enhanced by the new IMF facility that provides roughly $2 billion in special drawing rights but also gives the IMF the new capacity to bail out the Iranian economy should the IMF choose to do so?

Mr. CLAWSON. There is very little chance the IMF would choose to do so, because Iran's policies are exactly the kind the IMF has warned against on many different occasions.

Mr. SHERMAN. So they would have to change their economic policies in order to get that. Of course, they probably would rather change their economic policies than their political and nuclear policies.

I yield back.

Chairman BERMAN. All right. Everyone has had a chance.

First, I want to ask unanimous consent to include a letter from the Iranian American Bar Association in the record of this hearing.

[The information referred to follows:]

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July 22, 2009

VIA EMAIL AND OVERNIGHT MAIL

The Honorable Congressman Howard L. Berman
U.S. House of Representatives
Committee on Foreign Affairs
2170 Rayburn House Office Building
Washington, DC 20515
Telephone: (202) 225-5021

Re: The Use of Excessive Force against Iranian Citizens in the Wake of the June 12 Elections

Dear Congressman Howard Berman,

The Iranian American Bar Association ("IABA") is the largest and most prominent organization of judges, lawyers and law students of Iranian descent, with well over 1500 members in nine metropolitan cities across the country. On behalf of our members, we write to you in order to impart the perceptions and opinions of our organization to assist you in your deliberations regarding Iran.

As you know, on June 12, 2009, citizens of the Islamic Republic of Iran turned out in historic numbers to vote in the nation's presidential elections. In the days and weeks following the announcement of official results, thousands of women and men poured into the streets to protest both the process and the electoral results. Many of these peaceful protesters were met with shocking brutality and violence at the hands of military and para-military forces under the authority of the Iranian government.

Although the Iranian government has shut down all reporting by foreign and other non-state journalists, social media networks, such as Twitter and Facebook, have been employed to provide some first-hand glimpses into current events in Iran. These reports indicate that Iranian citizens were and continue to be arrested, detained without charge, tortured, and killed for having taken part in street demonstrations and otherwise being affiliated Mir-Hossein Mousavi, the defeated reformist candidate, or a movement for change.

Amongst the almost 2000 people who have been detained are prominent Iranian lawyers and human rights activists including Mohammad Mostafei, Abdolfattah Soltani, Amir Raeisian, Maliheh Dadkhah, and Mohammad Ali Dadkhah. Today, in fact, reports indicate that prominent Iranian women's rights activist and lawyer, Shadi Sadr, was detained by paramilitary forces, pushed into a car, beaten with batons, and then taken to an unknown location. IABA is concerned about the safety and well-being of these individuals and others currently being detained by the Iranian government. It has

ostensibly been the case that absent international pressure, the Iranian government has been reluctant to free detained individuals or to assure their just and safe treatment.

As a ratifying member of the Universal Declaration of Human Rights ("UDHR"), the International Covenant on Civil and Political Rights ("ICCPR"), and the International Covenant on Social, Economic, and Cultural Rights ("ICESCR"), the Iranian government has the legal duty to respect, protect and promote the rights to peaceful assembly and association enjoyed by the Iranian people. Article 9 of the UDHR and the ICCPR also specifically uphold an individual's fundamental right to opinions and expression without state interference. Moreover, customary rules of international law, which are applicable to the Iranian government under international law, make it unlawful for either the Iranian government or non-state actors under its control to engage in acts of and other cruel, inhuman, or degrading treatment or punishment. These rights and prohibitions are further guaranteed by the Iranian Constitution.

It is our sincere hope that the Iranian government can peacefully resolve the current situation while adhering to these obligations. However, we strongly believe that the fate of Iranians is in their own hands and that intervention by the United States or other allies would be counter-productive. As President Obama rightfully noted, "The Iranian people will ultimately judge the actions of their own government." We will continue to actively monitor the events as they transpire and are prepared to offer our analysis of the situation as it evolves.

We thank you again for the opportunity in allowing us to comment on this matter. Please feel free to contact me at nmilaninia@iaba.us or (650) 644-7169 in case you have any questions. We hope to assist your office in making any determinations on this issue and would be willing to appear at any future hearings which may impact the Iranian-American community.

Very truly yours,

IRANIAN AMERICAN BAR ASSOCIATION

Nema Milaninia, Esq.
President

Chairman BERMAN. Secondly, I am going to recognize myself for two short questions; and if somebody else hung around, they can get two short questions, too.

Question number one. In fact, I am just going to make it one short question. An analysis firm called STRATFOR produced a paper sometime soon after the Iranian election which appeared to have a sophisticated mathematical analysis, which for me means they had a bunch of numbers in different paragraphs, and therefore I assumed it was sophisticated. The thrust of it was that all this stuff about election-rigging and the breadth of the opposition was massively overstated. That if you looked at the different logical population centers, Ahmadinejad would have won a resounding victory with a fair count. That essentially the opposition to him is isolated to some college students, some feminists, a few discontented mullahs. That the notion that there is some groundswell in Iran against the supreme leader and Ahmadinejad is hyperbole, exaggeration, almost mythology.

Now, in all fairness, that was done at least a month ago. But it is contrary to what a number of you particularly focused on internal Iran political developments have been saying. So I would like your reaction. I don't know if you saw that paper.

Mr. MILANI. I have read the paper, and I think it is deeply misinformed. It doesn't take into account many of the data that we have acquired since then, many of the evidence about how they rigged the election, about 15 million ballots that were printed without authorization and without numbers and many other things that basically show us that the government did in fact steal the election. Three million people, according to the Mayor of Tehran, came out in Tehran out of a population of 12 million. That is a quarter of the population.

Chairman BERMAN. Came out not for the election.

Mr. MILANI. To oppose the election. They came out to oppose the election.

Chairman BERMAN. Out in the streets.

Mr. MILANI. A quarter of the population came out for 5 days. That would be like 80 million people demonstrating in America for 5 days. When you have that level of support, to then claim that there are only feminist pockets that support this Moussavi is absolutely I think ridiculous.

If the regime had the ballots, they would have produced it. They could have solved the problem very easily. The only person that has been allowed to see a ballot is Mr. Rezai's representative. Mr. Rezai said they opened one ballot for us. Seventy percent of the ballots in there were in one handwriting, in one pencil and for one candidate. That is the ballot they opened.

Chairman BERMAN. Ballot box.

Mr. MILANI. Ballot box, I am sorry.

Chairman BERMAN. Mr. Sadjadpour.

Mr. SADJADPOUR. Congressman Berman, Ahmadinejad went from 5.7 million first round votes in 2005 to 24.7 million first round votes in 2009, an increase of 19 million after overseeing an economy in which inflation doubled, economic malaise deeply increased. That is the first point.

Second point is that I think that the images really say it all. They deeply discount this analysis from STRATFOR that this was simply an isolated movement of students in northern Tehran.

And, lastly, as Abbas alluded to, if you genuinely win an election two to one, you don't need to imprison thousands of people and kill hundreds. You agree to a recount.

Chairman BERMAN. Anybody else? All right.

Ms. MALONEY. No, I mean it is important to actually take this notion on. Because as much as there is kind of unanimity on this panel and probably in most of Washington that it was a rigged election, I do hear these strands of skepticism when I talk to people. And I find it sort of inconceivable, because there is so much anecdotal evidence, reports of things happening in the Interior Ministry before the election was called.

There is statistical analysis which shows that the way that the votes were reported had to have been concocted rather than real. But there is also the gut level analysis of anyone who knows anything about Iran and the Iranian people. Nobody found the idea that nearly two-thirds of the electorate wanted another 4 years of Ahmadinejad credible. And I think that is more powerful than anything else.

Chairman BERMAN. Mr. Costa.

Mr. COSTA. Thank you very much again, Mr. Chairman, for an excellent hearing. And what a very good panel that we have here today.

It is a follow-up, and you partially have answered it, I think, but on the line of questions I was asking earlier, and that is the battle that is taking place among the highest levels of leadership within Iran. And is this just a battle for the leadership for power or is it something bigger like for the hearts and minds of the Iranian people? Is there really below that level of the highest council a fermenting of this population that are 30 and younger, or half the population is 30 years of age or younger that want a different Iran, a new Iran? Yes.

Mr. MILANI. I think it is both. I think we have a major rift within the clerical leadership. Some of the clergy who were with the regime have now completely taken a different side, like Mr. Khatami, Mr. Karubi, Mr. Rafsanjani, and Mr. Montazeri, who was one of the founding fathers of this regime has just issued a fatwa that basically says Khamenei is not morally fit to have this job.

There is another bunch of clergy who have never been inside the government who oppose the idea of velayat-e fagih. They are also speaking out against the current status, because they realize that people are becoming completely areligious, if not anti-religious. They are trying to save some of the religion for them.

And, finally, the youth, which are modern, savvy, want a job, and 40 percent of them are without a job.

Mr. COSTA. And secular many of them.

Mr. MILANI. And for that I have anecdotal as well as empirical evidence.

Again, that poll shows that the majority of the people want the spiritual leader's job elected. That basically means the presidency elected by people.

Mr. COSTA. Anyone else care to comment?

Chairman BERMAN. Mr. Ellison.

Mr. ELLISON. Again, I want to join Mr. Costa and the chair in thanking the panel. It has been a great panel.

I also would like to ask unanimous consent to have an op-ed from Mr. Trita Parsi to be entered into the record.

Chairman BERMAN. Without objection, his op-ed will be included.

[The information referred to follows:]

Obama and Diplomacy with Iran: The Case for a Pause
By Trita Parsi, Ph.D.

No one said diplomacy with Iran would be easy. And now, before it even started, the Iranian election crisis has left Tehran politically paralyzed and Washington without any clear paths to keep the diplomatic option alive. All while the nuclear clock keeps ticking, making the initiation of negotiations by September critical in the view of some in the Obama administration.

While diplomacy should not be abandoned, the momentous upheaval in Iran has completely changed the political landscape. Proceeding with an artificial timetable without taking into consideration the potential for decisive changes to Iran's political configuration may backfire severely.

Indeed, there is a strong case for a diplomatic pause.

The President has stated that the US is in a wait and see mode until the post-election dust settles in Iran. Clearly, that has not happened yet. The opposition is alive and kicking. Just last week, former President Hashemi Rafsanjani cast doubt on the election results during the Tehran Friday prayers. A day later, former President Mohammad Khatami upped the ante and called for a referendum on the elections and the government. And presidential hopeful Mir Hossein Moussavi continues to defy Iran's Supreme Leader, Ayatollah Ali Khamenei, accusing him of insulting the Iranian nation by claiming that the protesters are acting on behalf of foreign nations.

The opposition's resilience has clearly taken Ahmadinejad and Khamenei by surprise. At a minimum, the opposition has deprived Ahmadinejad of any sense of normalcy, forcing him to devote several hours a day to address the election dispute instead of advancing his own political agenda.

Khamenei and Ahmadinejad now seem to be off-balance. Khamenei is increasingly resorting to warnings and threats rather than calls for unity and reconciliation. "The elite should be watchful, since they have been faced with a big test. Failing the test will cause their collapse," Khamenei said Monday in a speech that many perceived as verging on desperation.

Diplomacy should still be America's policy, but under these circumstances, it should be put on hold. The obvious reason for holding off is because broad diplomacy with the Ahmadinejad government may tilt the election dispute in Ahmadinejad's favor. But there are other reasons as well.

Looking at Iran's internal political development, the election dispute is about far more than an Ahmadinejad-Moussavi rivalry or a disputed election. It goes to the core question of whether there is a peaceful path towards changing Iran's political system from within. For a population that is highly critical of the government, but that values stability, the existence of such a path has been paramount. It enabled the population to push for gradual, controllable change without risking another revolution that could end up the same way as the previous one, when one unpopular, repressive political system was replaced with another one.

If Ahmadinejad prevails and silences his internal critics and opponents, many will conclude that this path has been closed. Iran cannot be changed through the ballot box if the election results won't be honored. The likely result will be a radicalized population, whose opposition to the government will be met with increased repression at home and more adventurism abroad.

The Obama administration should avoid repeating the mistake of the Bush administration, in which Iran was solely viewed from a nuclear prism. Delaying nuclear talks a few months won't make a dramatic difference to the nuclear file. It could, however, determine which Iran America and the region will be dealing with for the next few decades – one in which democratic elements strengthen over time, or one where the will of the people grows increasingly irrelevant to Iran's decision-makers.

Moreover, even if the impact of negotiations is believed to be negligible on the election dispute, reality is that Iran currently is not in a position to negotiate. Some in Washington have argued that the paralysis in Tehran has weakened the country and made it more prone to compromise. But rather than delivering more, Iran's government currently can't deliver at all. The infighting has simply incapacitated Iranian decision makers.

That creates a tremendous danger for diplomacy. Of all scenarios the Obama administration could be faced with, – an Iran that refuses to come to the table, or an Iran that only plays for time – the worst scenario is one in which the parties find their way to the table, but fail to make diplomacy succeed due to either inflexible red lines or an inability to deliver. If talks fail, America will only face bad options on Iran.

America should not be married to any artificial deadlines. Pushing for talks now simply because we decided on a timetable may undermine the chances for diplomacy to succeed. The best way to enhance prospects for diplomacy may actually be not to pursue diplomacy for now.

Trita Parsi is president and co-founder of the National Iranian American Council and author of "Treacherous Alliances: The Secret Dealings of Israel, Iran, and the United States."

Mr. ELLISON. You know, I would love to see Iran be a constructive and positive force in the Middle East, not contribute to dissension within Israel and Palestine and southern Lebanon but actually help bring parties to a good resolution. I would like to see the talents of its people flowered forward. And I really do join my colleagues in really hoping for the best for the Iranian people.

My big question is how. How? What is the best way forward?

So I will say that I haven't been persuaded that the best thing for us to do is to rush to crippling sanctions. Because, quite frankly, we need the world community to support our efforts if it is going to be successful. We have sanctioned ourselves out of sanctions unilaterally.

How do we get the world—and I am talking about the whole world—to help us out the way sanctions brought about change in South Africa if we do not give real diplomacy a chance to work? And not the kind of diplomacy that says, well, we tried, so let's oil up the guns. That is the concern that I have.

I am not in principle against sanctions, if that is what we need to do, but I am skeptical of this idea that we only—that we can't move anything past September, that there is going to be a nuclear weapon in October if there is not one. I am just very concerned about that.

And so I would just like to get your reaction to some of my fears. Help me feel more comfortable, if you think I am wrong, about my analysis. And, Mr. Kittrie, I have heard you before, so let's let somebody else get started. Dr. Milani and Mr. Sadjadpour are the first two I would like to hear from.

Mr. MILANI. Sir, I think your concern I completely share. I think the Iranian people have the capacity to really become a major force

for change. Iran has been a bellwether state in the Middle East. If there is democracy in Iran, I think there will have an effect for the rest of the region. And I think they deserve better than this leadership. And I think the United States is in the position to help them by sending the kind of messages that we talked about.

I agree with you. Unilateral sanctions will only enrich the Revolutionary Guards some more.

Mr. ELLISON. And hurt the people.

Mr. MILANI. Unless it is—as I said, unless it is an internationally sanctioned and participated, like what they did to South Africa, that would cripple the economy. Unless the world agrees not to buy oil from these people. These unilateral sanctions pour water, as we say in Iran, in their pot rather than the pot of the people. But sending a message to Siemens and others that doing this kind of thing in Iran has a price to pay I think will help a great deal.

Mr. SADJADPOUR. I agree with that.

Mr. ELLISON. Anybody else?

Chairman BERMAN. All right. Again, I want to thank the panel very much. You gave us some wonderful information and analysis. I thought it was an excellent panel, and I am very grateful for the nearly 6 hours that you spent here. Well, 5. Thank you very much.

[Whereupon, at 2:36 p.m., the committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

FULL COMMITTEE HEARING NOTICE

Committee on Foreign Affairs

U.S. House of Representatives
Washington, D.C. 20515-0128

Howard L. Berman (D-CA), Chairman

July 17, 2009

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in **Room 2172 of the Rayburn House Office Building:**

DATE: Wednesday, July 22, 2009

TIME: 10:00 a.m.

SUBJECT: IRAN: Recent Developments and Implications for U.S. Policy

WITNESSES:

Patrick Clawson, Ph.D.
Deputy Director for Research
The Washington Institute for Near East Policy

Suzanne Maloney, Ph.D.
Senior Fellow
Saban Center for Middle East Policy
The Brookings Institution

Abbas Milani, Ph.D.
Co-Director, Iran Democracy Project, Hoover Institution
Director, Iranian Studies, Stanford University

Mr. Karim Sadjadpour
Associate, Middle East Program
Carnegie Endowment for International Peace

Michael Rubin, Ph.D.
Resident Scholar
The American Enterprise Institute
Senior Lecturer, Naval Postgraduate School

Orde F. Kittrie, J.D.
Professor of Law
Arizona State University
Co-Director, Iran Energy Project, Foundation for Defense of Democracies

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Wednesday* **Date** *7/22/09* **Room** *2172 RHOB*

Starting Time *10:10 A.M.* **Ending Time** *2:36 P.M.*

Recesses *1* (*12:10* to *12:45*)

Presiding Member(s) *Howard L. Berman, (CA), Chairman*

CHECK ALL OF THE FOLLOWING THAT APPLY:

Open Session ☑
Executive (closed) Session ☐
Televised ☑
Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING or BILLS FOR MARKUP: *(Include bill number(s) and title(s) of legislation.)*
IRAN: Recent Developments and Implications for U.S. Policy

COMMITTEE MEMBERS PRESENT:
See Attached

NON-COMMITTEE MEMBERS PRESENT:
n/a

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

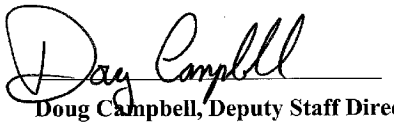
STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*
Obama and Diplomacy with Iran: The Case for Pause by Trita Parsi, Ph.D.
Letter dated 7/22/09 from the Iranian American Bar Association to Howard L. Berman

ACTIONS TAKEN DURING THE MARKUP: *(Attach copies of legislation and amendments.)*
n/a

RECORDED VOTES TAKEN (FOR MARKUP): *(Attach final vote tally sheet listing each member.)*

Subject	Yeas	Nays	Present	Not Voting

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *2:36 PM*



Doug Campbell, Deputy Staff Director

Attendance - HCFA Full Committee Hearing
IRAN: Recent Developments and Implications for U.S. Policy
Wednesday, July 22, 2009 @ 10:00 a.m. , 2172 RHOB

Howard L. Berman (CA)
Gary Ackerman (NY)
Brad Sherman (CA)
William D. Delahunt (MA)
Diane E. Watson (CA)
Russ Carnahan (MO)
Albio Sires (NJ)
Gerald E. Connolly (VA)
Michael E. McMahon (NY)
Lynn C. Woolsey (CA)
Sheila Jackson-Lee (TX)
Barbara Lee (CA)
Joseph Crowley (NY)
David Scott (GA)
Jim Costa (CA)
Keith Ellison (MN)
Ron Klein (FL)

Ileana Ros-Lehtinen, (FL)
Christopher H. Smith (NJ)
Dan Burton (IN)
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Joe Wilson (SC)
John Boozman (AR)
Jeff Fortenberry (NE)
Ted Poe (TX)
Bob Inglis (SC)

Verbatim, as delivered

July 22, 2009

Chairman Berman's opening remarks at hearing, "Iran: Recent Developments and Implications for U.S. Policy"

On June 12, Iranians went to the polls in what was expected to be a close Presidential election. But instead of a down-to-the-wire contest, the Iranian government almost immediately declared that the incumbent had been re-elected in a landslide.

This hearing takes place in the wake of six weeks of post-election turmoil and uncertainty – the most significant internal upheaval since the 1979 revolution. Hundreds of thousands of courageous Iranians have taken to the street in defiance of the regime to protest the election results.

The regime responded brutally to these peaceful demonstrators. By the government's own admission, at least 20 protestors were killed and some 500 are in prison awaiting trial. Most human rights groups say the actual numbers are much higher, with some putting the number killed well into the hundreds.

Iran also barred its domestic and foreign press from covering the demonstrations; shut down cell-phone coverage and the Internet for long periods of time to limit communication among the dissidents; arrested foreign journalists; and, in total disregard of international law, broke into the British embassy to arrest local hires.

The people of Iran should know that the over one million Iranians living in America and hundreds of millions of other Americans stand in awe of their courage to stand up for free elections.

Have no doubt, the American people stand with you.

Post-June 12 events in Iran raise many questions. Has the regime, as many have said, now lost much, if not all, of its legitimacy? Is the clerical elite now irrevocably divided? Has the Iranian Revolutionary Guard Corps become the dominant force in the country? If so, what are the implications of these developments?

Should we expect further turmoil? Is the regime's survival in question? And, most important, what are the implications for U.S. and international efforts to prevent Iran from developing a nuclear weapons capability?

The facts on the ground are deeply disturbing. Iran has made significant progress on its nuclear program, far exceeding expectations of the recent past.

According to the International Atomic Energy Agency, Iran has now installed more than 7,000 centrifuges, and has produced enough low-enriched uranium to fuel a nuclear explosive device, were that low-enriched uranium to be transformed into highly-enriched uranium.

And some would point out that this describes only Iran's *overt* program; in many quarters, the suspicion lurks that Iran also has a *covert* program that is even further along.

The nuclear issue is urgent, and it is of such over-riding importance to America's national security – and to regional stability – that we can't afford to drop the ball.

Whatever our feelings about the authoritarian regime in Tehran, that regime continues to hold the reins of power, and for now, I believe President Obama is correct in continuing to pursue a policy of engagement.

Why? Because our previous policy of seeking to isolate the regime simply didn't work.

Nothing we have done has slowed Iran's drive to acquire a nuclear weapons capability.

And only by making a good-faith effort to engage Iran can we build the support we need from the international community to impose the crippling sanctions necessary should engagement fail.

But while it is important to pursue engagement, it is also critical that these efforts be time-limited, and that the Administration be prepared to try a different approach if Iran is not cooperating.

As I understand it, that is exactly the Administration's policy. The President recently said that Iran's willingness to engage will be re-evaluated in early fall, after the September 24-25 G-20 meeting in Pittsburgh.

He has also said that "(w)e're not going to create a situation in which talks become an excuse for inaction while Iran proceeds" on its nuclear efforts. In short – if I can paraphrase the President – we should not allow Iran to run out the clock.

I agree with the President's timetable. If by autumn the Iranians are not responsive to US efforts to engage them, it likely will be time to move on, hopefully in close coordination with our allies and other key countries.

That is also my approach regarding H.R. 2194, the Iran Refined Petroleum Sanctions Act, which I introduced with the Ranking Member in April, and which is now co-sponsored by well over half the Members of the House.

My bill would impose sanctions on companies that are involved in exporting refined petroleum products to Iran or in helping Iran to increase or maintain its existing domestic refining capacity.

This legislation would force companies in the energy sector to choose between doing business with Iran, or doing business with the United States.

The Iranian economy is heavily dependent on imports of refined petroleum, so this legislation -- if it becomes law -- would significantly increase economic pressure on Iran, and hopefully persuade the regime to change its current course.

When I introduced H.R. 2194, I said that I did not intend to immediately move it through the legislative process. I wanted – and still want – to give the Administration's efforts to engage Iran every possible chance to succeed, within a reasonable time frame.

I view the bill as a "sword of Damocles" over the Iranians – a clear hint of what will happen if they do not engage seriously and move rapidly to suspend their uranium enrichment program, as required by numerous UN Security Council resolutions.

If engagement doesn't work, then I am prepared to mark up the bill in Committee early this fall.

Thus far, Iran has not been responsive – not on the bilateral front, and not even on the multilateral front.

Last month, Iran cancelled its attendance at the G-8 ministerial in Trieste, Italy.

It has refused to set a date for the next P-5-plus-1 meeting.

It is now late July – close enough to the Administration's time-limit, and to my own, that Iran should be able to hear the clock ticking.

IRAN: Recent Developments and Implications for U.S. Policy
Wednesday, July 22, 2009
10:00 a.m.

The Honorable Gerald E. Connolly (VA-11)

Thank you, Mr. Chairman.

It is important for our own interests that we do not cede political capital to the Iranian regime. Therefore, a nuanced approach is best when we examine our interaction with Iran. An effective approach would address our security concerns without affording the Iranian regime an opportunity to misrepresent our words or intentions to the Iranian people. The last thing we want is to inadvertently legitimize the Iranian regime by issuing blanket condemnations about the regime.

I want to emphasize that rationality and firmness are not mutually exclusive. We can address the multitude of issues in the strained relationship between the United States and Iran while maintaining our commitment to national security.

Before finalizing an Iran policy, we must consider the somewhat redundant and factionalized Iranian political structure. There are many players, some of which include the Supreme Leader, the Supreme National Security Council, the Assembly of Experts, the President, and the Council of Guardians. We cannot reduce Iran's nuclear ambitions without first identifying the relative influence of each of these and other players.

There is also Iran's economic situation, which is in distress. Though all countries are experiencing the negative effects of the global recession, Iran is in a particularly precarious economic situation. There are deep financial problems that are partially obscured by mass subsidies funded by Iran's past oil windfall. One day the oil profits will disappear, and the consequences of the Ahmedinejad government's misuse of Iran's Oil Stabilization Fund will be apparent. Already, the Iranian government cannot provide proper electricity to its people, and daily blackouts are common.

Despite all this, there are positive developments, such as the seeds of democracy within Iran. When the Interior Ministry announced that Ahmadinejad won 62% of votes only two hours after polls closed, Iranian streets erupted in protest. We saw the power of assembly, and the inherent democratic desires of the Iranian populace. The fact that Grand Ayatollah Montazeri of Qom questioned the legitimacy of Ahmadinejad's win, and defended the right of the people to assemble, indicates there are pro-democratic voices in Iran that can be encouraged.

Given the recent developments in Iran, I look forward to today's hearing.

House Foreign Affairs Committee Hearing on Iran
Congressman McMahon
Opening Statement
July 22, 2009

- Thank you, Chairman Berman.
- I would like to thank our panel of distinguished witnesses for being here today.
- In 2006, the National Security Strategy of the United States of America warned that "We may face no greater challenge from a single country than from Iran."
- Unfortunately, with the war in Iraq coming to a close and the US shift to the war in Afghanistan, 2009 has illustrated the Iranian threat to U.S. interests has taken on seemingly unprecedented qualities of aggressiveness and urgency.
- The Islamic Republic has long exercised a dynamic influence inside Iraq, raising the specter of Iran filling the power vacuum following the departure of U.S. forces as its nuclear ambitions have also spurred similar aspirations among Arab states, leading to the potential for greater proliferation of harmful nuclear materials.
- Furthermore, Tehran's imperialist agenda has Ahmadinejad's regime courting partners as diverse as Latin American demagogues, the post-apartheid government of South Africa, and the Shanghai Cooperation Organization.
- I stand by the Administration's decision to engage Iran through negotiations, but the United States must have something concrete to negotiate with first. For this reason, I have strongly advocated for the use of sanctions to wean Iran away from its nuclear ambitions.
- Following the failed Iranian elections in June, the Iranian regime has had its legitimacy wounded and its paranoia increased. Many observers expect the regime to take a posture of increased repression at home and antagonism abroad. In that dangerous environment, Israel's leaders have every right to be concerned for their country's safety.
- While hope still exists for a free Iran, Europe, Israel and the United States must undoubtedly prepare for a more dangerous Iranian regime in the near-term. We must be ready for the possibility that Iran will intensify its pursuit of nuclear weapons to overcome the embarrassment of the recent elections.
- Even though Iran is an oil exporter, its economy is in fact highly dependent on imported gasoline and other refined petroleum products.
- European companies are heavily involved in the Iranian gasoline business; policy makers need to stop this trade.

Congresswoman Jackson Lee, Of Texas
Full Committee on Foreign Affairs
"IRAN: Recent Developments and Implications for U.S. Policy"
Statement

July 22, 2009

Foremost, I would like to extend my gratitude to Chairman Berman for hosting this important Full Committee hearing today. I would also like to thank our distinguished witnesses:

- Patrick Clawson, Ph.D., Deputy Director for Research, The Washington Institute for Near East Policy
- Suzanne Maloney, Ph.D., Senior Fellow Saban Center for Middle East Policy, The Brookings Institution
- Abbas Milani, Ph.D., Co-Director, Iran Democracy Project, Hoover Institution and Director, Iranian Studies, Stanford University
- Mr. Karim Sadjadpour, Associate, Middle East Program, Carnegie Endowment for International Peace
- Michael Rubin, Ph.D., Resident Scholar, The American Enterprise Institute, and Senior Lecturer, Naval Postgraduate School
- Orde F. Kittrie, J.D., Professor of Law, Arizona State University and Co-Director, Iran Energy Project, Foundation for Defense of Democracies

In the aftermath of an election crisis in Iran, I would like to express my support for all Iranian citizens who embrace the values of freedom, human rights, civil liberties, and rule of law and for other purposes. As I stated on the floor in support of H.Res. 560, the only effective way to achieve lasting peace and prosperity in the region, along with bringing about reforms in Iran's polity, is to assist the Iranian people in their quest to achieve political, social, and religious liberty. Every government can be judged by the way in which it treats its ethnic and religious minorities, and the current Iranian government gets a failing grade for its treatment of its many and diverse minorities. It is not our position as the United States to determine the outcome of the recent Iranian elections, but as a leader in the international community, we have a responsibility to ensure that the people of Iran have the opportunity to have the opportunity for fair and free elections.

Iran and the dilemma and complexity of its situation has grabbed hold of the hearts and minds of Americans and freedom-loving people around the world.

What struck me was the expression and the tragic incident that caused Neda, who is now known around the world as a symbol of the Iranian movement, to claim

democracy in a free election. A 16-year-old who was shot through the heart, who lay bleeding in the street as her father feverishly tried to save her life.

Americans are not trying to tell the Iranian people whom they should vote for or whether the election was a fair election. But as freedom-loving people, who love democracy, who believe in our own country that we should have fair elections, I stand in accordance with their plight as the citizens of Iran petitioned their government to hold a new election or a recount. Unfortunately this plea fell on deaf ears when the Supreme Leader, Grand Ayatollah Ali Khamene'i, declared that the results of the 2009 election were "a divine assessment." In my statement in support of H.Res.560, I noted that it is time for the violence and injustice to end. It is time that political opposition in Iran be given a platform. I am not advocating violence. I am not advocating intrusion. I am only advocating freedom for Iran.

Yet with the results of the recent election, there was no chance for Iranian citizens to participate in Democracy. On June 12, 2009 Mahmoud Ahmadinejad was ostensibly re-elected to his second term as President, as a result of the tenth Presidential elections in Iran, held and calculated on June 13, 2009. Subject to official results released by Iran's election headquarters, out of a total of 39,165,191 ballots cast in the Presidential election, Ahmadinejad allegedly won 24,527,516 votes, which accounts for approximately 62.6% of the votes, while his opponent and former Prime Minister of Iran Mir-Hossein Mousavi purportedly secured only 13,216,411 (37.4%) of the votes. Supreme Leader Ali Khamenei announced that he envisions Ahmadinejad as president in the next five years, a comment interpreted as indicating support for Ahmadinejad's reelection, and so it happened exactly that way.

Just 48 hours after Iranian officials announced incumbent President Mahmoud Ahmadinejad's landslide 62.6% victory, the situation in Tehran and in regions throughout the country broke out in a wave of violent protests in response to what the people of Iran knew to be a rigged poll. Yet despite the large-scale civil unrest in response to the rigged elections, the outstretched arm of the Ayatollah extends beyond Tehran. Whereas the size of the crowds protesting reached to more than 1 million people united in outrage at the absence of a fair and free electoral process. Despite the government ban placed on all public gatherings that form with the purpose of voicing opposition to the outcome of the Iranian Presidential elections, the people of Iran have publicly expressed their dissent. Iranians throughout the country have defied Interior Ministry warnings broadcast. Violence spilled on to the streets of Tehran. There were reports of over 20 Iranians were killed in violent political unrest.

Beyond Tehran, Iranians living in the rural regions felt directly the Ayatollah's pressures to cease all public expression of their discontent with the outcome of the elections. The Iranian people living in the region of Mashad were even confined to their homes in order to prevent them protesting in the streets. All foreign journalists were ultimately quarantined and/or made to leave the country.

Following the results of the June 12th Iranian election, President Obama released a statement in reaction to then elections in Iran, stating "I am deeply troubled by the violence that I've been seeing on television," Obama said in Washington. "I can't state definitively one way or another what happened with respect to the election. But what I can say is that there appears to be a sense on the part of people who were so hopeful and so engaged and so committed to democracy who now feel betrayed."

Given the absence of fair and free elections, coupled with the government's poor record for transparency and accountability, we have deep cause for concern about the opportunity for free choices and democratic participation for the people of Iran. Despite intensified inspections since 2002, the International Atomic Energy Agency's (IAEA) inability, to verify that Iran's nuclear program is not designed to develop a nuclear weapon is cause for great concern. While Iran states that the intention of its nuclear program is for electricity generation which it feels is vital to its energy security, U.S. officials challenge this justification by stating that "Iran's vast gas resources make a nuclear energy programs unnecessary."

In the aftermath of an election crisis we must not forget that Iran is marching ever closer to the development of a nuclear weapon, as they continue the pursuit of enriching uranium. Iran's nuclear program, coupled with its continued military assistance to armed groups in Iraq, Afghanistan, the Palestinian group Hamas, and to the Lebanese Hezbollah has been the basis for President Obama's characterization of Iran as a "profound threat to U.S. national security interests." Yet the last Administration's approach of isolationism failed to stop or even slow the escalation of Iran's nuclear development. In that vein we do not want to ostracize Iran, as has been done in the past. This Administration has indicated that if Iran refuses to come to the "nuclear bargaining table" by late September 2009, sanctions will resume.

Given this context, broadening engagement with Iran by establishing a diplomatic dialogue with the Government of Iran and deepening relationships with the Iranian people will only help foster greater understanding between the people of Iran and the people of the United States, and would enhance the stability the security of the Persian Gulf region. Furthering President Obama's approach toward continued engagement will reduce the increased threat of the proliferation or use of nuclear weapons in the region, while advancing other U.S. foreign policy objectives in the region. The significance of establishing and sustaining diplomatic relations with Iran cannot be over-emphasized. Avoidance and military intervention cannot be the means through which we resolve this looming crisis. I look forward to further meaningful discussion and a new foreign policy strategy with regard to Iran when the people of Iran are able to participate in a fair and democratic electoral process.

Congressman Ron Klein

Opening Statement
House Foreign Affairs Committee
"Iran: Recent Developments and Implications for U.S. Policy"
July 22, 2009

The global community has employed several sanctions through U.S. efforts and UN Security Council resolutions, but Iran continues to make progress toward a nuclear weapon, even though doing so is clearly in violation of international will and law.

Businesses around the world are realizing that it is increasingly more risky to invest in Iran, and I believe that responsible businesses will refuse to do business with Iran.

Having said that, I remain concerned about the involvement of U.S. businesses in Iran and companies that do business in the United States who also do business in Iran.

Further, there are companies that have received funding from the US Treasury's TARP program that continue to do business with Iran.

I believe that Congress's responsibility is to ensure that no US entity—and certainly no entity that is receiving taxpayer assistance or contracts—should be helping the Iranian government. If engagement fails, we must act quickly and forcefully to send the message to the Iranian government that their actions are dangerous and that the United States will not accept an Iranian nuclear weapon under any circumstances.