

MEETING THE IRANIAN CHALLENGE

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

—————
JULY 9, 2008
—————

Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web:
<http://www.gpoaccess.gov/congress/index.html>

U.S. GOVERNMENT PRINTING OFFICE

47-032 PDF

WASHINGTON : 2009

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

COMMITTEE ON FOREIGN RELATIONS

JOSEPH R. BIDEN, JR., Delaware, *Chairman*

CHRISTOPHER J. DODD, Connecticut	RICHARD G. LUGAR, Indiana
JOHN F. KERRY, Massachusetts	CHUCK HAGEL, Nebraska
RUSSELL D. FEINGOLD, Wisconsin	NORM COLEMAN, Minnesota
BARBARA BOXER, California	BOB CORKER, Tennessee
BILL NELSON, Florida	GEORGE V. VOINOVICH, Ohio
BARACK OBAMA, Illinois	LISA MURKOWSKI, Alaska
ROBERT MENENDEZ, New Jersey	JIM DEMINT, South Carolina
BENJAMIN L. CARDIN, Maryland	JOHNNY ISAKSON, Georgia
ROBERT P. CASEY, JR., Pennsylvania	DAVID VITTER, Louisiana
JIM WEBB, Virginia	JOHN BARRASSO, Wyoming

ANTONY J. BLINKEN, *Staff Director*

KENNETH A. MYERS, JR., *Republican Staff Director*

CONTENTS

	Page
Biden, Hon. Joseph R., Jr., U.S. Senator From Delaware	1
Burns, Hon. William J., Under Secretary for Political Affairs, U.S. Department of State, Washington, DC	6
Prepared statement	10
Lugar, Hon. Richard G., U.S. Senator From Indiana	5
Additional material submitted for the record	35

MEETING THE IRANIAN CHALLENGE

WEDNESDAY, JULY 9, 2008

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 3:02 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Joseph R. Biden, Jr. (chairman of the committee) presiding.

Present: Senators Biden, Kerry, Feingold, Bill Nelson, Menendez, Cardin, Casey, Webb, Lugar, Hagel, and Murkowski.

OPENING STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S. SENATOR FROM DELAWARE

The CHAIRMAN. The hearing will come to order. Mr. Secretary, welcome and I apologize for starting late. As you know, we have some important votes.

Thank you very much. It's nice to know I can't be heard without a microphone.

I was telling my colleagues here, I said I started to walk in and Bertie, who runs this committee, said: Don't go in yet, Mr. Chairman; we've got an overflow crowd in the hall and we've got to fill up another room. So I want to explain, he's the reason I was an extra 2 minutes late. But I was here.

Welcome, Mr. Secretary. It may hurt your reputation, but you're among friends here. There's a great deal of respect for you on both sides of the aisle and both sides of the lectern here on this committee. So it's great for you to take the time to be with us.

Let me get right to the point of today's hearing and let me be blunt. In my view, as a result of the policies the administration has pursued the last 6 years, I believe that it's Iran and not freedom that has been on the march in the Middle East the last 6 years. I think Iran's influence has grown in Iraq. Its proxy Hezbollah has become ascendant in Lebanon. Its ally Hamas dominates Gaza. It's testing intermediate range missiles and Iran is getting closer to a nuclear weapon capacity by mastering the process of enriching uranium.

The issue is not whether or not Iran presents a real security challenge. It does over time. The question is whether we have a realistic view of that challenge and a coherent policy to deal with that challenge. Iran, to state what seems to be the obvious, but it's not so obvious to many of our colleagues and people in town, Iran is not 10 feet tall. Iran is not the Soviet Union with 42 divisions ready to move through the Folda Gap. It is not Panzer divisions of the German army in the late 1930s. Despite its large oil resources,

it faces serious economic problems, including high inflation and unemployment. It has very few friends and its people chafe under the social and political repression that exists within that country.

It spends about \$7 billion a year on defense every year, about what we spend for 2 weeks in Iraq—\$7 billion a year; we spend that in 2 weeks in Iraq.

But Iran's acquisition of a nuclear weapon would dramatically destabilize an already unstable region of the world and probably fuel a nuclear arms race in my view in the region. It is profoundly in our interest to prevent that from happening.

Our choices it seems to me are fairly straightforward. We either engage, we maintain the status quo, or we use some sort of military force, whether it's directly against Iran itself or in the gulf or against its interests. If we don't engage, then we're stuck with the Hobson's choice between an ineffectual policy that allows our partners but not the United States to engage Iran on its nuclear program and military strikes that could quickly spiral out of control.

Last week, in response to an incentive package that the Permanent 5 members of the United Nations Security Council and Germany, the so-called P5+1, Iran has said it's willing to begin comprehensive negotiations. Time will tell. We cannot take them at their word, but they have stated they are prepared. But it did not indicate that it will suspend its uranium enrichment activities as a precondition for those talks.

Now, as you consult with other capitals on the response to Iran's response, I respectfully urge you, Mr. Secretary, to find creative ways to advance the dialogue with Iran by building on the steps that the administration has already taken. Among those steps was Secretary Rice's decision to personally sign a letter to the Iranian Foreign Minister transmitting the incentives package. That may seem like a minor gesture to everyone but you at the table, but the truth of the matter is I'm told her signature was taken as a signal of a real support for the incentives package, not just the idea of our European friends or the Permanent 5, not just by Tehran, but it was also taken seriously, her signature, by the P5 plus Germany, that we were really in it, we really were part of this initiative.

Other similar steps could solidify the P5+1 coalition. For instance, I've seen reports suggesting the administration is considering establishing an American diplomatic presence in Tehran for the first time in 30 years. I think that's a good idea. A diplomatic presence would increase our knowledge of the forces at work inside Iran. It would give us a stronger diplomatic hand to play, and it would decrease the chances of miscalculation. It would also help us more effectively operate exchange programs so as to increase contacts between Americans and the Iranian people.

For those who say aren't we giving up something in return for nothing from the Iranians, I would argue what I've just stated is something in terms of our interests. I would also suggest the world should see whether or not Iran would accept—would Iran accept such a mission, because it will tell us a lot in my view about the seriousness in being willing to negotiate.

More broadly, Mr. Secretary, I think the time has come for us to strike a new bargain with our P5+1 partners. The net effect of demanding preconditions that Iran rejects is this: That we get no re-

sults and Iran gets closer to a bomb. And by the way, the P5+1 already is negotiating with Iran. What else could we call the process in which the P5 presents a detailed offer to Iran, which comes back with a counteroffer, which produces a response from the P5+1? I call that a negotiation. That's what negotiations are. I don't know what else you'd call that.

I believe the United States should agree to directly engage Iran first in the context of the P5+1 and ultimately country to country, just as we did in North Korea. Remember, after we pulled out of the Agreed Framework we insisted that North Korea fully disclose and abandon its uranium enrichment program as a precondition for resuming talks. Pyongyang refused, and instead increased its stockpile of plutonium by 400 percent. We finally got smart and re-engaged without precondition and now we have a realistic chance of securing a verifiable end to North Korea's nuclear weapons program. There's a way to go. We have to verify. But there is real progress.

Direct U.S. engagement with Iran in country to country negotiations is something that the European Union, Russia, and China have told me personally, their representatives, and I imagine my colleagues, that they would welcome.

In exchange, we should insist on firm commitments from those governments—if we were to do this—to impose serious sanctions if Iran continues to defy the U.N. Security Council by not suspending enrichment and related work on plutonium reprocessing. Engaging Iran and sanctioning Iran are not only compatible, in my view they are mutually reinforcing, notwithstanding the contrary argument that always is made in this town. Again, let me say: Engaging Iran and sanctioning are not only compatible, they are mutually reinforcing. Sanctions can provide the leverage for negotiations.

I know this point will not be lost on you, Mr. Secretary, given your central role in the outreach to Libya. We also need to do a much better job with our public diplomacy. I'm not sure how many people—I will not take the time, in the interest of my colleagues, to lay out the grand work you did with regard to Libya. But I remember getting the call—and I guess you were probably partly to blame for it—not too many years ago saying: There's a plane waiting for you at the airbase to fly to meet with Qaddafi.

So why me? They said because they wanted a Democrat, basically, to go over and face to face look at Qaddafi and make clear to him that I supported the President's position if he did what was required. The point being, if we could talk and sit down with Qaddafi, who did engage directly in terrorist activities, we ought to be able to sit down and engage with Iran.

We should exploit the cracks within Iran's ruling elite and between its rulers and its people. The Iranian people need to know that their government is choosing isolation over cooperation. Right now, the way we position ourselves, we're made to look like the bad guy. Always rebroadcast in Iran is the veiled threats of the United States of America, when in fact the Iranian people don't like their government very much to begin with, and I think it's very important they fully understand that it is us who are willing to engage and not their government if their government chooses not to engage.

So does the wider international community need to understand this. We need to publicize the incentives offered to Iran. Those include greatly expanded trade and properly safeguarded, state of the art nuclear reactors suited to producing energy and not for producing materials for weapons programs. The Foreign Ministers of the P5+1 should use every opportunity to stand together and make clear to the world, not just to the Iranians, all the benefits that Iran is forgoing.

When it comes to countering Iran's regional influence, we have to be smarter with our diplomacy. I respectfully suggest, Mr. Secretary, we can undermine Iran's connection with Hezbollah in my view by actively supporting Israeli-Syrian peace talks. We can weaken Iran's ally Hamas with success in the peace process, that undercuts the claim that terrorism is the path to a Palestinian state.

As to Iran's influence in Iraq, the idea that we could wipe out every vestige of that, as some of my colleagues suggest, is a fantasy. It's a fantasy. Even with more than 140,000 American troops in Iraq, our ally in Baghdad, the Prime Minister of Iraq, Mr. Maliki, greets the Iranian leader Ahmedinejad with kisses on both cheeks, travels to Tehran to consult, to explain, to seek approval. Like it or not, Iran shares a long border with Iraq. Iran and Iraq share a long history. The idea that we can somehow expunge that from the consciousness of both nations I think is fantasy.

The best way to promote more responsive Iranian behavior in my view, Mr. Secretary, in Iraq is for Iran to confront the possibility that instability could spill over the borders of Iraq into Iran. We can do that by making clear our intention to begin to redeploy American combat forces out of Iraq, not withdraw all of them. But we do not need 140,000 troops there.

Right now Iran likes it exactly like it is, with the United States bogged down and bleeding and our ability to present a credible military threat short of an all-out Armageddon, a credible military threat, considerably reduced in the eyes of the leaders in Tehran.

Mr. Secretary, I believe that now is the time for aggressive diplomacy for Iran, including direct U.S. engagement, if for no other reason than to demonstrate to our allies that we are not the problem and put the onus on the Iranians either to engage forthrightly or demonstrate to the world they are the problem and unwilling to do so.

There is still a realistic chance, not a guarantee, but I believe there's a realistic chance that the world can change Iran's behavior. If we go the extra diplomatic mile, the world is much more likely to stand with us if, God forbid, diplomacy fails and we need to engage in stronger action.

We didn't do that in Iraq. We should not make that mistake twice.

I look forward to your testimony, and I always look forward to the chairman's comments as well.

Senator Lugar.

**OPENING STATEMENT OF HON. RICHARD G. LUGAR,
U.S. SENATOR FROM INDIANA**

Senator LUGAR. Thank you very much, Mr. Chairman. I join you in welcoming our friend Secretary Burns back to the committee. We appreciate especially your efforts to work closely with our committee and with the Congress, and we look forward to your testimony on the critical topic of American policy toward Iran.

Iran's leaders have thus far rebuffed the international community's offer to negotiate an acceptable arrangement for their nuclear program. As a result, thanks in part to United States leadership, the U.N. Security Council has voted three times to impose sanctions on Iran and may do so again.

Clearly, we do not want to undercut multilateral diplomatic efforts undertaken by European allies and the United Nations Security Council. Sanctions on Iran that have come out of this process have been hard-won and this multilateral approach to the problem I believe has directly bolstered United States efforts to encourage foreign governments and banks to curtail commercial benefits to Iran, thereby enhancing the impact of United Nations sanctions.

The task for American diplomats continues to be solidifying an international consensus in favor of a plan that presents the Iranian regime with a stark choice between the benefits of accepting a verifiable cessation of their nuclear program and the detriments of proceeding along their current course.

The questions for U.S. policy include: What can be done to accelerate the United Nations process? What else can we do to strengthen global cohesion and determination to ensure that Iran does not develop a nuclear weapons capability? And, are we maximizing our economic and regional leverage while maintaining diplomatic channels that will minimize the possibilities for miscalculation, improve our ability to interpret what is going on in Iran, and strengthen our efforts to enlist the support of key nations?

Several weeks ago, newspapers reported that Secretary Rice had mentioned during a flight the possibility of establishing a U.S. visa office or some similarly modest diplomatic presence in Iran, as the Chairman has just mentioned. Reportedly, the idea was motivated by an interest in facilitating more exchange and more outreach with the Iranian people. State Department spokesmen downplayed the report, saying nothing was contemplated in the near term. But I would be much interested if you have any thoughts or any news on this idea in what I believe is a very forward-looking context.

Similarly, do we believe that the current negotiation format, led by Germany, France, and the United Kingdom, gives us the best chance for success? Though we are coordinating closely with this group, should U.S. diplomats be engaging more directly in this multilateral effort? In short, should we have a seat at the table when Mr. Solana next visits?

Finally, without losing focus on the immediate nonproliferation issue, we cannot fail to take into account the more complex long-term situation presented by Iran. Neither a successful diplomatic agreement on the nuclear issue nor the use of military force against Iran's nuclear facilities would change finally the underlying reality that we will continue to have to contend with Iran on a wide variety of issues far into the future. Iran's young and edu-

cated population, its natural resource wealth, and its strategic location make it a relevant player in the Middle East that we will not be able to ignore.

Some thought has to be given to establishing a more stable long-term relationship between Iran and the United States. Such a relationship is difficult to conceive, admittedly, at this time in history. Iranian policies in Iraq, Lebanon, and the Israeli-Palestinian arena threaten our immediate interests in the Middle East. Iran's provocative foreign policy and the bombastic rhetoric of its president have fed concerns among its neighbors that it seeks to dominate the region. But history demonstrates repeatedly that conditions change and transformations are possible. We need to make sure that we are incorporating an over-the-horizon view into our policy judgments.

I noted in reference to the chairman's earlier thoughts about the perspective on Iran a comment made by Fareed Zakaria in a Newsweek magazine article in which he gave a statistic that our economy is 68 times the size of Iran's, our military budget 110 times the size of Iran's. It's good to have that perspective. Likewise, it is very necessary to think about a long-term bilateral relationship between the two nations, based upon the promise of the young and the fact that there is a continuity of resources and vitality in that country that will simply not go away.

Once again, it's a pleasure to have you before us, Secretary Burns, and we look forward to your insights on these issues.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Again, Mr. Secretary, it's a delight to have you here. As I said, you have universal respect on this committee. We appreciate your being here, and the floor is yours.

STATEMENT OF HON. WILLIAM J. BURNS, UNDER SECRETARY FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Secretary BURNS. Thank you very much, Mr. Chairman, Senator Lugar, members of the committee. I want to thank you for the opportunity to appear before the committee today to discuss U.S. policy toward Iran. As you've mentioned, I've just returned from 3 years as Ambassador in Moscow, and I look forward very much to working with all of you in my new position.

I'd ask that my written statement be included in the record and, with your permission, I'd offer a very brief oral summary and highlight a few key points.

The CHAIRMAN. The entire statement will be placed in the record.

Secretary BURNS. Thank you.

First, the behavior of the Iranian regime poses as serious a set of challenges to the international community as any problem we face today. Iran's nuclear ambitions, its support for terrorism, and its efforts to undermine hopes for stability in Iraq and Afghanistan, including lethal backing for groups attacking American troops, are all deeply troubling. So are its destructive actions in Lebanon, its longstanding rejection of a two-state solution for Israelis and Palestinians, and the profoundly repugnant rhetoric of its leaders about Israel, the Holocaust, and so much else.

Compounding these concerns is Iran's deteriorating record on human rights. Ten years ago we saw signs of opening in Iran's political and social systems. Today, sadly, Iranian citizens are subjected to increasingly severe restrictions on basic rights and increasingly blatant manipulation of the electoral process.

Second, it's important to understand not only the dangers posed by Iranian behavior, but also the vulnerabilities and complexities of Iranian society. To be sure, the Iranian regime is a potent regional adversary, tactically cunning and opportunistic and good at asymmetric conflict. But as you said, Mr. Chairman, it is not 10 feet tall. It often substitutes assertiveness and self-aggrandizing pronouncements for enduring power, promoting the illusion of Iran as a real counterweight to the United States or to the institutions of global order, especially the United Nations and the International Atomic Energy Agency.

The truth is a little bit more sobering for Iran. Because of its behavior, it can count on few allies in the world beyond the unimposing trio of Cuba, Belarus, and Venezuela, and sometimes Syria, and no real friends that could offer strategic reassurance, global investment, or a secure future in a globalized world.

Its neighbors are all wary. Most Iraqi leaders want normal relations with Iran, not surprisingly. But as the Maliki government's capacity and confidence slowly grow, its priority is to assert Iraq's own sovereignty. The readiness of the Iraqi Government and security forces to confront Iranian-backed militias has also produced new support and cooperation from its Arab neighbors. So far Jordan, Bahrain, and the United Arab Emirates have decided to send Ambassadors back to Baghdad and we're pressing other Arab governments to do the same.

Meanwhile, Syria's active involvement in indirect peace talks with Israel is a reminder to Iran that even its regional partners may have higher priorities than the relationship with Iran.

Beneath its external bluster, Iran faces a number of internal contradictions. Despite \$140 a barrel oil, its economy is stagnating and a remarkably inept Iranian leadership is failing its own people. Inflation is running at 25 percent and food and housing costs are skyrocketing. Because of bad economic management, the oil windfall has failed to generate anywhere near the 1 million new jobs that Iran needs each year just to keep up with its population growth or to bring desperately needed diversification to the economy.

In these circumstances, it's fair for Iranians to ask whether the cost of its defiant nuclear program, which could run into the tens of billions of dollars, is really worth it. Iranians need only look across the gulf to the spectacular rise of an advanced, innovative economy in Dubai, the rapid expansion of Qatar's natural gas exports and gas-based industries, and the efforts of Saudi Arabia and other oil-rich states to reduce their debt, undertake needed reforms, and invest in future capacity to appreciate the opportunities squandered by their own leaders.

In Iran, the fourth largest oil producer in the world, nearly half of all refined petroleum products still need to be imported. With two-thirds of its population under the age of 30, Iran is also a society with a mounting appetite for modernity, advanced technology, and connections to the rest of the world. Its younger generation is

far more attuned to what those connections can offer than warped, isolated, impoverished places like North Korea, and far more likely to feel the pull that comes through the Internet and satellite television and travel abroad.

My third point, against that backdrop, is that the purpose of our policy is to change the behavior of the Iranian regime, making common cause with as much of the international community as we can. We should not let the Iranian regime off the hook about its behavior or allow it to divert attention from its domestic failings and external adventurism under the also pretext that it is under existential threat from the outside. The problem is the regime's behavior, which endangers not only the international community, but the self-interest of the Iranian people.

Our strategy is built on tough-minded diplomacy, maximizing pressure on the Iranians at multiple points to drive home the costs of continued defiance of the rest of the world, especially on nuclear issues.

At the same time, however, we're trying to make clear to Iran and its people what they stand to gain if they change course.

My fourth comment considers the sticks side of the equation, the progress, sometimes frustratingly slow, but nonetheless tangible, that we've made in sharpening the down sides for Iran of its continued refusal to heed the U.N. Security Council or the IAEA. Three Chapter VII sanctions resolutions have significantly complicated Iran's pursuit of its nuclear ambitions, as well as its international financial position.

While deeply troubling, Iran's real nuclear progress has been less than the sum of its boasts and it has not yet perfected enrichment. Iran's front companies and banks are being pushed out of their normal spheres of operation, away from the dollar and increasingly away from the euro, too. The cost of export credits to Iran has increased by 30 percent and the overall level of credits has diminished. A growing number of major international financial institutions have cut ties with Iran over the past year and more are moving in that direction.

In this respect, renewed willingness by European Union states to tighten pressure on Iran is especially welcome. Two weeks ago the EU adopted new sanctions against 38 individuals and entities, including imposing an assets freeze on Iran's largest bank, Bank Melli. Last week the EU began formal consideration of additional measures. We are consulting quietly with other major players, such as Japan and Australia, about what more they can do.

Our partners in the P5+1—Britain, France, Germany, Russia, and China—remain committed to a two-track approach and that would mean consideration of new steps beyond Resolution 1803 if Iran refuses our recent incentives package and ducks its U.N. Security Council and IAEA obligations.

To reinforce multilateral actions, the United States has also implemented a series of autonomous sanctions against Iran. In particular, the Departments of Treasury and State have carried out an effective campaign to limit Iran's access to the international business community. Indeed, yesterday we designated 11 additional Iranian entities and individuals for proliferation activities.

These measures, combined with warnings such as the ones issued last year and early this year by the Financial Action Task Force, reverberate in financial sectors, making Iran less hospitable for business and aggravating the impact of the regime's economic mismanagement.

My fifth and final point focuses on the carrots or incentives side of the equation, on our intensifying efforts to make clear to the Iranian people what's possible with a different pattern of behavior. Javier Solana's recent visit to Tehran helped highlight the opportunities before Iran if it cooperates with the international community. Solana carried a package of incentives including an offer of assistance on state of the art light water reactor technology, along with a letter signed by the P5+1 Foreign Ministers, including Secretary Rice.

None of us dispute Iran's right to pursue civilian nuclear power for peaceful purposes. But Iran needs to answer the questions posed by the IAEA, comply with U.N. Security Council resolutions, and restore confidence in its intentions. Major powers like South Korea have realized the benefits of civilian nuclear energy without the need to enrich and reprocess and that is a path that is open to Iran, too.

While skepticism about the Iranian regime's reaction to international incentives is almost always a safe bet, we're working with our P5+1 partners in an intense public diplomacy campaign to explain what we're offering directly to the Iranian people, as well as to others in the international community, like leading members of the nonaligned movement, who might also help drive home the advantages of cooperation.

We want the Iranian people to see clearly how serious we are about reconciliation and helping them to develop their full potential, but also who's responsible for Iran's isolation. The truth is that Iran's nuclear weapons ambitions bring it less security, not more. They set back, rather than advance, Iran's ability to play the significant regional and international role that its history, culture, and geopolitical weight should bring it.

Interpreting Iran's domestic debates is always a humbling business, but there are some interesting commentaries beginning to emerge after Mr. Solana's visit. In one newspaper column, the former deputy head of Iran's atomic energy organization wrote that: "Spinning 3,000 or 4,000 centrifuges at semi-industrial levels is useful for political maneuvering and talks, but if it means the imposition of technological, economic, and welfare hardship then it raises the question of what other vital interests are being harmed by immovable, stubborn Iranian officials."

It's hard to say where any of this will lead, but it at least suggests that it is well worth the effort to explain and publicize what we are putting on the table. The Iranian regime has provided an initial reply to the P5+1 proposals and has proposed a further meeting with Mr. Solana in the coming weeks to discuss this in more detail.

We're also trying to find creative ways to deepen our own engagement with Iran and its people, who remain amongst the most pro-American populations in the region. And while that is admittedly a low bar these days, it's striking how curious Iranians are

about connections to Americans. With the generous support of Congress, we're in the second year of successful people-to-people exchange programs. In cooperation with the National Basketball Association, for example, we're bringing the Iranian Olympic basketball team here next week for the NBA Summer League. We're committed to using educational, cultural, and sports exchanges to help rebuild bridges between our two societies after 30 years of estrangement.

Mr. Chairman, I have no illusions about the grave dangers presented by the behavior of the Iranian regime or the difficulties of changing that behavior. I am convinced that we cannot do it alone and that a strong international coalition is crucial. Hard-nosed diplomacy, backed up by all the tools that are at our disposal and as much leverage as we and our partners can muster, is an essential ingredient. As Secretary Rice said earlier this year, "America has no permanent enemies, we harbor no permanent hatreds."

Diplomacy, if properly practiced, is not just talking for the sake of talking. It requires incentives and disincentives to make the choices clear to those with whom you are dealing that you will change your behavior if they're willing to change theirs. That is the kind of approach that helped produce significant breakthroughs with Libya several years ago, including its abandonment of terrorism and the pursuit of nuclear weapons. It is the kind of approach that is beginning to produce results in our multilateral diplomacy with North Korea. It may or may not produce results on Iran, with whom we have had a relationship burdened by deep-seated grievances and suspicions and a long history of missed opportunities and crossed signals. But it is important for us to try, bearing in mind that our audience is not only the Iranian regime, but also the Iranian people and the wider international coalition we are seeking to reinforce.

At a minimum, it seems to me it is important to create in this administration as strong an international diplomatic mechanism as we possibly can to constrain Iranian behavior, on which the next administration can build. Our choices are not going to get any easier in the months and years ahead, but they will be even more difficult if we don't use all our diplomatic tools wisely now.

Thank you very much again, Mr. Chairman. I look forward to your questions.

[The prepared statement of Secretary Burns follows:]

PREPARED STATEMENT OF WILLIAM J. BURNS, UNDER SECRETARY FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Mr. Chairman and members of the committee, it is a pleasure to appear before you today to testify on the strategic challenges posed by Iran. The behavior and the policies pursued by Iran's current leadership pose profound and wide-ranging challenges for our interests, for our friends and allies in the Middle East and in South Asia, and for the international community as a whole.

These policies include Iran's nuclear ambitions; its support for terrorist groups, particularly Hezbollah, Hamas, and Palestine Islamic Jihad; its longstanding rejection of a two-state solution to the Palestinian-Israeli conflict; its efforts to sow violence and undermine stability in Iraq and Afghanistan, including lethal support for groups that are directly responsible for hundreds of U.S. casualties; and finally, the strategic implications of Iranian behavior for Gulf security. Across the broader Middle East, Iran's actions jeopardize the peaceful and prosperous future that the region's responsible leaders, with the support of the United States and the international community, are striving to build.

IRAN'S VULNERABILITIES

Iran's vulnerabilities, and the complexities of Iranian society, need to be considered along with the challenges posed by Iran's behavior. For its part, Tehran seems to relish heightening concerns by promoting the illusion that Iran is on the ascendance. We are all familiar with the repugnant rhetoric, employed by some Iranian leaders intended to aggrandize Iran as a powerful counterweight to the U.S. as well as the institutions of global order, especially the United Nations and the International Atomic Energy Agency (IAEA). However, Iran is not 10 feet tall, nor is it even the dominant regional actor. Iran's regime has some real insecurities—not least the widespread alarm and resentment that its policies and rhetoric have generated throughout the region and the international community at large. In the late 1990s, Iran endeavored to rebuild its ties to its neighbors and the world as a whole. However, today, Iran has no real friends anywhere that could offer strategic reassurance, vital investment, or a secure future in a globalized world. Many of its neighbors retain wary relations, its alliances are limited to a handful of countries, such as Syria, Belarus, Cuba, and Venezuela, and its destabilizing actions have drawn the international community closer in unprecedented fashion.

And, while Iran may benefit from a degree of instability in Iraq, Afghanistan, Lebanon, and the Palestinian territories, it is also facing a new and more challenging situation in many of these arenas. The complexities of internal politics and a revival in responsible regional diplomacy are complicating Iran's pursuit of regional hegemony.

In Iraq, for example, Iran's destabilizing activities are beginning to encounter new obstacles in the form of a more capable and coherent Iraqi Government. Most Iraqi leaders want normal relations with Iran, but as the central government's capacity and confidence grows, its priority is to assert Iraq's own sovereignty. The Iraqi Security Forces' move into Basra earlier this year, and similar operations elsewhere in southern Iraq, in Baghdad, and now in northern Iraq are clear examples of indigenous Iraqi efforts to assert the central government's authority and counter Iraqi militants, including militias receiving Iranian support. Prime Minister al-Maliki's recent meetings in Tehran, where he lodged protests against Iran's support for terrorist groups in Iraq, made clear the limits to Iranian-enabled lethal attacks in Iraq. In addition, the readiness of the Iraqi Government and security forces to confront Iranian-backed groups has also produced new support and cooperation from its Arab neighbors. So far, Bahrain, Jordan, and the UAE plan to send Ambassadors to Baghdad, and we hope other Arab governments will heed their example and do the same.

The Doha Agreement, which allowed a partial resolution of that crisis, is an example of a new and positive activism on the part of Arab governments, in part due to their concern over Iran's destabilizing activities and growing regional aspirations. The strong Arab role in the process sent a direct message to Iran that the leadership in Tehran will not be given free rein to further undermine the democratic process in Lebanon through its support to Hezbollah. We are watching with interest Iran's relationship with Syria. Syria has begun indirect peace talks with Israel, and this follows Syria's attendance at last fall's Annapolis Peace Conference, a move that apparently surprised the Iranian leadership and led to some adverse commentary from Iran. Syria appears to be conducting a policy toward Israel that is independent from Iran's, presumably leading some in Iran to worry that in the future the extremely close relationship between the two governments could weaken.

We also see the concern of other governments translated into new cooperation and an expanding coalition of countries that oppose Iran's aggressive behind-the-scenes policies. Many regional governments that feel threatened by Iran are working more energetically to counter and diminish its influence in the region. This is evidenced by the changed dynamic between Iraq and its neighbors, including the reintegration of Iraq into regional affairs through its participation in Gulf Cooperation Council meetings with Egypt and Jordan in a GCC plus 3 configuration. In addition, gulf nations participating in the Gulf Security Dialogue are working cooperatively among themselves and with the United States on security issues of mutual concern. These states support the responsible and transparent development of civilian nuclear energy but have publicly declared their opposition to the pursuit of nuclear weapons. To that end, in direct contrast to Iran, some regional governments have chosen to conclude nuclear cooperation agreements in partnership with the U.S., without the development of an indigenous fuel cycle, contradicting Iran's claims that the West seeks to prevent the pursuit of nuclear energy for peaceful purposes. This is also consistent with the choice made by South Korea, and others.

In addition to the political and diplomatic vulnerabilities Iran's leadership has created for itself, Iran's current leaders also confront well-documented internal chal-

lenges, the direct product of the current leadership's extraordinary economic mismanagement.

Ten years ago, we saw hopeful signs that Iran's Government was slowly beginning to appreciate the political and economic imperatives of democracy. Today, unfortunately, those small steps toward moderation and greater popular participation have been all but erased by the hard-liners who hold sway in Tehran. The international community rightly criticized the Iranian Government's treatment of its own people, and the regime's record of human rights abuse has only grown worse over this past year. The regime regularly commits torture and other forms of inhumane treatment on its own people—including labor leaders, women's rights activists, religious and ethnic minorities, and critics of the regime, severely restricts basic freedoms of expression, press, religion, and assembly to discourage political opposition, and manipulates Iran's electoral process, particularly through the mass disqualification of candidates.

It is an irony that despite its abundance of hydrocarbon resources, Iran's policies have made it necessary to rely on imports of refined petroleum products to meet internal demand. The Iranian Government is failing its own people. Iran's nuclear activities may eventually cost billions of dollars, which could be better spent to benefit the Iranian people. Inflation in some sectors is running well above 25 percent—a heavy burden for the Iranian people and a profound vulnerability for the regime. Food and housing costs, especially in Iran's major cities, are high and rising. Many foreign investors, particularly from Iran's historic trading partners, are reluctant to commit capital in such a precarious political environment and while Iran continues to pursue threatening policies. Record oil revenues may sustain the regime for the time being, but thanks in large part to the disastrous policies pursued in recent years, this oil windfall has failed to generate the jobs, growth, and diversification that Iranians desperately need. Iranians need only look across the gulf—to the spectacular rise of an advanced, innovative economy in Dubai, the rapid expansion of Qatar's natural gas exports and gas-based industries, and the wise efforts by Saudi Arabia and other oil-rich states to reduce debt, undertake needed reforms, and invest in future capacity—to appreciate the opportunities squandered by their own leaders.

Iran's people aspire to more. Their population, two-thirds of which are under 30, have a mounting appetite for modernity, advanced technology, and the better relations with the international community that would derive from expanded trade and economic development.

We hope that the new dilemmas Iran is beginning to face at home, in the region, and in the broader international community, will provoke a serious reconsideration of its provocative policies, revive internal debates about the utility of moderation and responsibility, and move Iran toward a more cooperative and constructive path. Until that time, however, the U.S. and the international community remain committed to meeting the challenges posed by Iran.

THE U.S. RESPONSE

The purpose of our policy is to change Iran's problematic policies and behavior by making common cause with as much of the international community as we can. Our goal is to convince Iran to abandon any nuclear weapons ambitions, cease its support for terrorist and militant groups, and become a constructive partner in the region. As President Bush has said, "all options are on the table, but the first option for the United States is to solve this problem diplomatically." This requires tough-minded diplomacy, maximizing pressure on the Iranians at multiple points to drive home the costs of continued defiance of the rest of the world, especially on the nuclear issue. At the same time, however, we are trying to make clear to Iran and its people what they stand to gain if they change course. As Secretary Rice said at Davos earlier this year, "America has no permanent enemies, we harbor no permanent hatreds. Diplomacy, if properly practiced, is not just talking for the sake of talking. It requires incentives and disincentives to make the choice clear to those with whom you are dealing that you will change your behavior if they are willing to change theirs. Diplomacy can make possible a world in which enemies can become, if not friends, then no longer adversaries."

This committee is intimately familiar with the dual-track strategy that we have employed in concert with our P5+1 partners—the U.K., France, Germany, Russia, and China—to put before the Iranian leadership a clear choice, so that it chooses a better way forward. Javier Solana's June 14 visit to Tehran to present the updated incentives package was an essential element of this approach, stressing the significant political, economic, technological, and energy benefits that could accrue to Iran if its leaders chose cooperation over their current course.

President Bush emphasized last month at the U.S.-EU summit that we seek to address this issue through a multilateral framework. He said: "Unilateral sanctions don't work . . . One country can't solve all problems . . . A group of countries can send a clear message to the Iranians, and that is: 'We are going to continue to isolate you. We'll continue to work on sanctions. We'll find new sanctions if need be if you continue to deny the just demands of a free world.'"

Consistent with the President's vision, Iran's failure to restore the international community's confidence in its intentions has not gone without consequences. The U.N. Security Council has adopted four resolutions on Iran, including three imposing Chapter VII sanctions. While some have questioned the impact of these measures, we do see a tangible effect. Two and half weeks ago, the European Union adopted sanctions on 38 additional Iranian individuals and entities, including prohibiting business with, and imposing an asset freeze on, Iran's largest bank, Bank Melli. The EU began formal consideration of additional measures last week. These actions, taken together, undermine Iran's ability to portray this problem as a bilateral one, and also weaken Iran's argument that the U.S. and the West are isolated in this cause.

The international community is more unified than in the past on the necessity for Iran to fully and verifiably suspend its proliferation sensitive nuclear activities and reestablish international confidence in the peaceful nature of its nuclear program. There is also a mounting consensus for Iran to come clean on its past efforts to build a nuclear warhead, based on the information presented in recent reports by the IAEA Director General which describe Iran's continued failure to cooperate with the IAEA investigation into Iran's weaponization activities.

While Iran seeks to create the perception of advancement in its nuclear program, real progress has been more modest. It is apparent that Iran has not yet perfected enrichment, and as a direct result of U.N. sanctions, Iran's ability to procure technology or items of significance to its missile programs, even dual use items, is being impaired. In addition to limiting Iran's access to proliferation sensitive technologies and goods, key individuals involved in Iran's procurement activities have been cut off from the international financial system and restricted from travel, and Iran's banks are being pushed out of their normal spheres of operation. Last November, Iran's OECD sovereign credit risk rating was downgraded from a 5 to a 6, on a scale of 0 to 7, and as a result, the cost of official export credit from OECD countries to Iran and its state-controlled enterprises has increased by approximately 30 percent, while availability of credit has shrunk. A number of export credit agencies have withdrawn or dramatically reduced exposure (notably those of the U.K., Canada, Italy, and France), and almost all first-tier banks have also withdrawn business from Iran.

The U.N. Security Council, U.S., and EU designation of Iranian banks further hinders Iran's reach. The most recent U.N. Security Council Resolution requires that states exercise vigilance with respect to the activities of banks in their jurisdictions with all banks domiciled in Iran and their branches and subsidiaries abroad. It mentions Banks Melli and Saderat, in particular. The Financial Action Task Force, a group composed of 32 countries including each of the five permanent members of the U.N. Security Council, has issued two serious warnings in less than a year, warning of the risks posed to the international financial system by deficiencies in Iran's antimoney laundering and counterterrorist financing regime. And the world's leading financial institutions have largely stopped dealing with Iran, and especially Iranian banks, in any currency. They do not want to risk unwittingly facilitating the regime's proliferation or terrorism activities. All of this adds up, keeping Iran on the defensive, forcing it to find new finance and trade partners and replace funding channels it has lost—often through more costly and circuitous mechanisms.

Government and private sector action on Iran has a psychological impact, as well. Iran has expressed its desire to assume the economic and political role it believes it deserves in the region, and to be seen as a legitimate player on the global stage. But the series of U.N. Security Council resolutions has shown the world—and Iran—that the international community will not allow an irresponsible actor such as Iran to expand its power unchecked. The effects of Iran's growing international stigma may, in the end, be as substantial as the direct economic impact of any sanctions. Losing the ability for a single Iranian bank, such as U.N.-designated Bank Sepah, to conduct business overseas is painful to Iran. Having major international financial institutions refuse to do any business with Iran because of the legitimate business risks that such trade present may be worse. This increasing pressure is only being amplified by the regime's own economic mismanagement, as it fails to deliver on its promises to improve the lot of average Iranians.

We have been working with our regional partners to help them develop the kind of cooperation that will help them better manage the political, diplomatic, and secu-

rity challenges Iran poses. These efforts are beginning to show signs of success. Examples include inter-Arab cooperation to help dampen the political crisis in Lebanon, the Gulf Security Dialogue, and the new interest on the part of the Arab governments in dealing with the Government of Iraq.

Finally, in tandem with the diplomatic and financial measures that are focused on the Iranian regime, we remain committed to charting a new course for U.S.-Iranian relations by intensifying our engagement with the Iranian people, with the hope of bridging the divide. We are now in the second year of a successful people-to-people exchange program. Partnering with the U.S. Olympic Committee, we invited 15 members of the Iranian table tennis national team to the States last week. This group included the first female Iranian athletes who have ever been to the U.S. on this program. In cooperation with the NBA, we will bring 25 members of the Iranian Olympic Basketball Team here next week for the NBA Summer League. We also hope to bring the Iranian soccer team to the U.S. later this year. Over the long term, we hope to build connections among our people through educational, cultural, and other exchanges which can overcome 30 years of estrangement that has severed links between our societies.

The United States stands with the Iranian people in their struggle to advance democracy, freedom, and the basic civil rights of all citizens. We believe the Iranian people have made clear their desire to live in a modern, tolerant society that is at peace with its neighbors and is a responsible member of the international community. We are confident that if given the opportunity to choose their leaders freely and fairly, the Iranian people would elect a government that invests in development at home rather than supporting terrorism and unconventional warfare abroad; a government that would nurture a political system that respects all faiths, empowers all citizens, more effectively delivers the public services its people are asking for, and places Iran in its rightful place in the community of nations; a government that would choose dialogue and responsible international behavior rather than seeking technologies that would give it the capability to produce nuclear weapons and foment regional instability through support for terrorist and militant groups.

LOOKING TO THE FUTURE

In summary:

We have presented the Iranian Government with a historic opportunity to do two things: To restore the confidence of the international community in its nuclear intentions, and to give its own people the access to technology, nuclear energy, education, and foreign investment that would truly open the way to economic prosperity.

We have made clear that we do not object to Iran playing an important role in the region, commensurate with its legitimate interests and capabilities, but also that Iran is far more likely to achieve its desired level of influence if it works with the international community and its neighbors, rather than if it works against them. We recognize that it would be useful for Iran to be “at the table” on major international matters if Tehran is willing to contribute in a constructive fashion.

The dual-track strategy to which we often refer in connection with the nuclear file, in fact, applies more broadly. Engaging in a diplomatic process on the broad range of issues at stake between our two states and working toward the restoration of Iran’s relationship with the international community would offer clear benefits for Iran and the Iranian people. But equally so, any continuation on its present course will entail high and increasing costs for Iran. Putting that choice to the Iranian leadership as clearly and acutely as possible is the core of our policy.

What we seek, let me emphasize, is a change in Iran’s behavior—a change in how it assesses and interacts within its own strategic environment. We should not let the Iranian leadership entrench itself on the false pretext that it is under threat from the outside. We have committed repeatedly and at the highest levels to deal diplomatically with the Iranian regime. The fact that this diplomatic dialogue has been limited to less than satisfying talks in Baghdad is the unfortunate choice of the Iranian leadership. As the recent presentation of yet another P5+1 offer makes clear, we do not exclude engagement. We remain ready to talk to Tehran about its nuclear program and the array of other American concerns about Iranian policies, as well as to address any issues Iran chooses to raise in a diplomatic context.

The Iranians are not completely closed off, and neither should the United States be. Careful consideration suggests that in certain contexts, we should have overlapping interests with Iran—for example, in a stable, unified Iraq at peace with its neighbors, in a stable Afghanistan, and in stemming narcotics trafficking. Broadly speaking, a responsible Iran can and should play an important, positive role in the

region. This is possible, if Iran is willing to work constructively with the international community and its neighbors.

We recognize that we have not yet achieved our desired goals: Iran has still not agreed to suspend uranium enrichment and other proliferation sensitive nuclear activities. Iran has not ceased unconventional warfare and some of its policies continue to contribute to regional instability. Iran's current leadership may be so dogmatic or paralyzed by internal disagreements that it cannot agree in the near term to terms so obviously to its advantage. With our long-term goal of persuading Iran to change its current course in mind, our immediate actions are intended to clarify the price of defiance by forcing Tehran to find new finance and trade partners and replace funding streams it has lost. We have made several notable successes, and will continue to work toward the objective of triggering a strategic recalculation in Iran's thinking.

Again, thank you for the opportunity to appear before the Senate Foreign Relations Committee to discuss this important subject and I would be pleased to answer your questions.

The CHAIRMAN. Well, Mr. Secretary, at the risk of damaging your credibility, your statement was music, at least to my ears. I quite frankly wish we had heard that statement in 2003 or '04 or '05 or '06 or '07. As usual, Mr. Secretary—I'm not being solicitous—you are always straightforward in your testimony. It's appreciated and it's welcome, because you give perspective and one of the things lacking in this discussion about Iran is perspective.

So let me start off again by thanking you. I wasn't going to say this, but it reminds me that Senator Kerry and Senator Lugar and I and maybe others—I apologize if I leave someone out—were, at the invitation of the White House, down in the Cabinet Room not many months ago when the President came back from a trip and he asked our opinion. I was making the point that, quite frankly, the less rattling of the saber the better, because all it did was unite the Iranian people behind a government they don't like.

I said that—I said it's a little bit like, the only way to get the North End and Southie in Boston to get together is threaten to bomb Boston. Senator Kerry said: No; say something about the Boston Red Sox and that would unite them.

But let me again thank you and get right to my question here. One of the things you often hear stated as a rationale why we have to be more bellicose in our relationships—and again I, like you, have no illusions about the present Iranian regime. I have no illusions that diplomacy will carry the day. I have no illusions also that we can do this by ourselves.

But one of the things you often hear is that, you know, these guys—and this is how it's phrased: These guys are likely to supply nuclear weapons or nuclear capability or weapons of mass destruction to al-Qaeda. How do al-Qaeda and Iran view one another?

Secretary BURNS. Well, Mr. Chairman, I think there's a wariness in that relationship, at least as I understand it over the years. So that we have had concerns about al-Qaeda members who have been harbored in Iran over the years. But it's a relationship obviously that we watch very carefully, but there's certainly a wariness there, I think.

The CHAIRMAN. My recollection is that al-Qaeda is primarily Sunni and that Iran is overwhelmingly Shia. I find it an unholy relationship, to think that that is the place where the Iranian leadership would move.

I want to skip around just a little bit here if I may, Mr. Secretary. As you know, there's legislation before the United States

Senate, referred to as the Iran Sanctions Act, that would require if passed in its present form the administration to investigate companies, regardless of where they're located, companies in the countries of our allies, our friends, members of the P5 as well as others, who invest more than \$20 million in Iran's energy sector and to possibly, for us to possibly extraterritorially sanction those foreign companies for their actions in Iran.

Now, it sounds good. It sounds like it's a thing that would diminish the ability of the Iranians to be able to generate a nuclear capacity, a weapons capacity. But how would passage of such legislation here affect in your view the administration's efforts to keep the P5+1 coalition together, coherent, and as unified as it appears to be right now?

Secretary BURNS. Well, Mr. Chairman, the passage of that legislation as it exists now I think would complicate that effort, precisely at the moment when we're beginning to see a greater willingness, especially on the part of the European Union, now under the French Presidency, to take more assertive steps on economic sanctions. The designation of Bank Melli, the largest of Iran's banks, 2 weeks ago was a very significant step and it's a message that's not lost on the Iranian regime.

So at precisely the moment when I think we're having some success—we're not moving as far and as fast as we would like, but we're having some success in mobilizing that coalition—our concern would be that the legislation that's been proposed would complicate that effort.

Second, I think it might also complicate the kind of mechanism that we leave in place for the next administration, because, like you, I absolutely believe that we're not going to solve this problem diplomatically alone, that we need to make as much common cause as we can with the international community.

There's a third concern that goes beyond your comments in at least one of the pieces of legislation, which has to do with the United States-Russian 123 agreement, civil-nuclear cooperation, which I won't go into now. But there again, I think our concern would be that that would undermine our ability to work with the Russians in the nuclear field, both on Iran and more widely, to help prevent the spread of nuclear weapons.

The CHAIRMAN. Quite frankly, I don't presume to speak for the chairman, but I know he shares this view and he's—I'm not being solicitous—been the leader in this area for the last 20 years. I just find it absolutely incomprehensible that we may very well pass a piece of legislation that essentially nullifies an agreement we've made with Russia, that is the very thing that will allow us to be able to get further cooperation from Russia on dissuading and making it more difficult for Iran to pursue the objective we think is the worst possible outcome.

I just find it—I'm not sure people have thought this through.

But at any rate, I think we're going to need your input, your straightforward analysis of what the consequences of essentially losing that agreement would be on this overall effort, because quite frankly the thing where the administration has made the most success in my view with regard to Iran has been in the economic side, on the banking side. It has not dictated that foreign banks or for-

eign investors cannot be involved with the banking system or the financial arrangements with Iran, but the effect has been it has put an incredible chill on other banks dealing with banks in Iran and it has put a real crimp in their economy.

I'm going to submit for the record, because I'm sure all my colleagues know, but a lot of the people listening to this will not understand what the Financial Action Task Force is. It's a group of 32 countries, including the five Permanent Members of the United Nations Security Council. And it has issued serious warnings in less than a year of the risk posed to the international financial system by deficiencies in Iran's antimoney-laundering and counterterrorist financing regime. It has had an incredibly negative impact on the banking system, legitimately, in Iran.

[The information referred to by Chairman Biden follows:]

ABOUT THE FATF

The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. The Task Force is therefore a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

Since its creation the FATF has spearheaded the effort to adopt and implement measures designed to counter the use of the financial system by criminals. It established a series of recommendations in 1990, revised in 1996 and in 2003 to ensure that they remain up to date and relevant to the evolving threat of money laundering, that set out the basic framework for anti-money laundering efforts and are intended to be of universal application.

The FATF monitors members' progress in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In performing these activities, the FATF collaborates with other international bodies involved in combating money laundering and the financing of terrorism. For more on mutual evaluations see *Monitoring the Implementation of the Forty Recommendations*.

The FATF does not have a tightly defined constitution or an unlimited life span. The Task Force periodically reviews its mission. The FATF has been in existence since 1989. The current mandate of the FATF (for 2004-2012) was subject to a mid-term review and was approved and revised at a Ministerial meeting in April 2008. For more information on the FATF's role, please see the FATF's standards.

History of the FATF

In response to the mounting concern over money laundering, the Financial Action Task Force on Money Laundering (FATF) was established by the G-7 Summit that was held in Paris in 1989. Recognizing the threat posed to the banking system and to financial institutions, the G-7 Heads of State or Government and President of the European Commission convened the Task Force from the G-7 Member States, the European Commission and eight other countries.

The Task Force was given the responsibility of examining money laundering techniques and trends, reviewing the action which had already been taken at a national or international level, and setting out the measures that still needed to be taken to combat money laundering. In April 1990, less than 1 year after its creation, the FATF issued a report containing a set of 40 recommendations, which provide a comprehensive plan of action needed to fight against money laundering.

In 2001, the development of standards in the fight against terrorist financing was added to the mission of the FATF. In October 2001 the FATF issued the Eight Special Recommendations to deal with the issue of terrorist financing. The continued evolution of money laundering techniques led the FATF to revise the FATF standards comprehensively in June 2003. In October 2004 the FATF published Nine Special Recommendations, further strengthening the agreed international standards for combating money laundering and terrorist financing—the 40+9 Recommendations.

During 1991 and 1992, the FATF expanded its membership from the original 16 to 28 members. In 2000 the FATF expanded to 31 members, in 2003 to 33 members,

and in 2007 it expanded to its current 34 members. For more see FATF Members and Observers (<http://www.fatf-gafi.org>).

I just think I'm critical of the administration, as you well know, on its Iranian policy, but this is a place where I find it has been pretty darn effective, as referenced by the chairman in his statements.

Let me pursue this a little further. The same legislation I'm referring to would effectively block this—actually, I've already referenced it, the 123. Let me move on.

How would you describe the Russian and Chinese stance, if you know, within the FATF. We understand that they've been among the more resistant parties in applying tougher sanctions on Iran, that is China and Russia. Now, how high a priority in your view do both Russia and China assign to Iran's nuclear program and their concerns relative to it?

Secretary BURNS. Well, Senator, I think the Russians and Chinese do share the same strategic objective in the sense that neither leadership needs to be persuaded that it's a bad idea, a real bad idea, for this Iranian regime to acquire nuclear weapons, and they have worked with us, which is not an insignificant thing, over the last couple of years on three Chapter VII Security Council resolutions. And they have stood firmly along with the rest of the P5+1 in making the concerns of the international community clear to the Iranian regime.

They have also not moved as far and as fast and as hard as we would prefer in those Security Council resolutions in the breadth and depth of sanctions, which we think will have an even more significant impact on the Iranian regime. So it can be a painful and sometimes frustrating process, but I think we have made progress. I think we can make more progress along both tracks of our approach.

In other words, just as you were saying before, one track which shows the consequences to Iran and its people—further economic pressures, more isolation—and the other which makes clear what it stands to gain.

The CHAIRMAN. One of the things I really was encouraged by in your statement is that you're the first administration witness—and there may be others, but the first that I have heard before this committee—who has pointed out what I think is a very critical point, that the need to publicize to the world and within Iran the carrots as well as the sticks that the international community is offering is vitally important in terms of internal pressure, internal division within Iran.

Which leads me to my last question in the last 30 seconds I have here. Is it your understanding—and if it's not appropriate to answer in this forum, just say so. But is it your understanding that China and Russia favor setting aside suspension as a precondition for further discussions or their encouragement of discussions country to country by us and Iran?

Can you speak to that?

Secretary BURNS. Sure, Senator. No; my understanding is that the P5+1, including the Russians and Chinese, are still committed to the negotiating posture which we've laid out, which Solana repeated to the Iranians a few weeks ago. That is a negotiation that's

based on suspension for suspension. In other words, the P5+1 commit to suspending the applications of the current U.N. Security Council resolutions and in return as negotiations begin the Iranians would suspend all enrichment and reprocessing activity.

The CHAIRMAN. But is it suspension for suspension or suspension for discussion?

Secretary BURNS. Well, the suspension for suspension would be the basis for the discussions. But that's the basis on which we've made clear that Secretary Rice, for example, would be prepared to join the other P5+1 Foreign Ministers in those negotiations.

The CHAIRMAN. Thank you very much. My time is up.

Senator LUGAR.

Senator Lugar. Mr. Secretary, just following through on that question, I suggested in the opening statement the need, as we discuss the carrots with Iran, which Javier Solana is planning to do, that there be a United States presence at the table, perhaps Secretary Rice herself. But in any event, is there the possibility that we will be there, so that there is a very clear perception on the part of anybody in Iran who is able to know about these negotiations about the seriousness of there being relief of a great number of sanctions and other difficulties, as well as the goodwill implied by the so-called carrots and benefits that are involved?

Secretary BURNS. Well, Senator Lugar, I think it was significant, and the significance was not lost on the Iranians, that Secretary Rice joined the other P5+1 Foreign Ministers in signing the letter that accompanied the incentives package. Our position is a very clear one. We're prepared, Secretary Rice herself is prepared, to join personally negotiations on the basis of the proposal that the P5+1 has made, and that remains our position.

So we've tried to find as many ways as we can to reinforce the fact that the United States is serious about the proposal in which we've joined the P5+1, both parts of it, both the incentives and the disincentives.

Senator LUGAR. As I understand, these talks could occur in the latter part of July, or is there a 6-week hiatus, or what is the timing of the Solana visit?

Secretary BURNS. I don't believe that Mr. Solana has yet pinned down a time for another meeting with his Iranian counterpart. But I think it is likely to take place in the next few weeks.

Senator LUGAR. Following through just on those conversations and Senator Biden's questions about the Russians, is there a possibility that the Russians would also be at the table? Would they take part physically in that conversation with the Iranians?

Secretary BURNS. I'm not sure, Senator, honestly. The format I don't think has been determined yet. Certainly when Mr. Solana presented our proposals in Tehran a few weeks ago the Russian representative, my counterpart, was there along with my other P5+1 counterparts. So we've made every effort, and the Russians have as well, to make clear that we're standing together on this two-track approach.

Senator LUGAR. The reason I raise the question—and your expertise would certainly be instructive here—is that a show of respect for Russia's place is important literally in terms of our bilateral relations with the Russians, quite apart from the necessity of being

on the same wavelength if at all possible with the Russians with regard to nuclear issues generally and nuclear issues in Iran specifically.

This is one reason why I appreciate the chairman raising the 123 agreement with the Russians. This is a critical part of our diplomacy right now with regard to the availability of peaceful nuclear advancement for many nations who might use this bank of expertise as well as fuel that the two of us would provide as an alternative to what the Iranians are doing.

Our ability to meld these factors together would seem to me to be critically important, and the participation of the Russians with the carrots as well as the sticks would seem to me to be very appropriate. That's why I raised the question, without pressing you to know an answer that you don't have, but as something to be considered certainly by our department.

Secretary BURNS. Yes, sir, Senator Lugar. And I do agree with you—we've discussed this many times before—that the Russian role, as frustrating as it sometimes can be—and ours is certainly a complicated relationship today, which mixes cooperation on some issues with competition and sometimes political conflict on others. But when you look—and you know this better than anyone—at the challenges in the nuclear field, whether it's the broad challenge of preventing the spread of nuclear weapons or the specific challenge of Iran, there is no partner with whom our cooperation can produce more than Russia in strategic terms, in plugging the biggest remaining gap in the NPT regime, which is the current ability of member states to enrich and reprocess within the regime right up until the point of nuclear weapons capability.

We and the Russians have both proposed some very similar and creative ideas for plugging that gap, including international fuel centers, the provision of assured fuel supply to countries, essentially to demonstrate that there's a pathway to civilian nuclear programs for peaceful purposes that does not involve enrichment and reprocessing. That's where the 123 agreement I think is an important ingredient in cementing our cooperation.

With regard to Iran specifically, I think as you look over the course of the last 2 years, when, not coincidentally, we were negotiating the 123 agreement, we have seen some positive movement on the part of the Russians. And it's sometimes been slow, but it's been represented first in the three Security Council resolutions I mentioned before, the three Chapter VII resolutions, in the way in which the Bushehr project has been transformed so that now the Russians provide the nuclear fuel and then take back the spent fuel, demonstrating to the Iranians and the rest of the world that you don't need to master the fuel cycle, you don't need to enrich and reprocess, to have a peaceful nuclear program.

Finally, as I've had the opportunity to discuss with some of you in closed session, there have been tangible steps taken by the Russian Government to ensure that Russian companies or entities are not engaged in illicit activities in the Iranian nuclear program.

So in the nuclear field I think we have seen some practical steps. That does not change the reality that in some other areas Russian behavior in Iran remains troubling. The supply, for example, of air defense securities to Iran is something we strongly oppose and

have sanctioned the Russians for, using other levers. But it just seems to me that the 123 agreement is an important tool to cement cooperation in the nuclear field on Iran as well as in our broader strategic cooperation.

Senator LUGAR. I appreciate that statement very much. There was a small piece of news this past week, not really commented in widely in the press, in which the Russian Duma by a vote of roughly 330 to 60 once again ratified a very important part of the Cooperative Threat Reduction program. By this time people have almost forgotten what that was all about, but you have not forgotten, and this is the basis upon which we continue to take warheads off of missiles, destroy missiles, destroy submarines, work in cooperative threat reduction with the Russians themselves.

This is proceeding despite all the ups and downs that you're describing diplomatically, and this is why I sort of press the issue of trying to pull together with the Russians on something where I think we have common interests that they will perceive, but critically important diplomatically vis-a-vis Russia and Iran.

Let me just ask a final question about the financial measures and specifically the bank situation. Although there will always be arguments on the motivation of the North Koreans coming back to the negotiating table, some suggest that banking measures that stifled their ability to move currency and to conduct transactions were the most critical thing we could have done. This was something that threats of military action or sanctions would never achieved with a government that was prepared to see people starve. But with regard to the financial arrangements, this got to the heart of the state itself, the central government.

So I am curious. In conversations that you know of are we at a point at which we are really able to say to the Iranians, we have you stopped and you will recognize this as you take a look at your bank account, that in essence you may think that you have wealth, but it's going to be an internal process for you, as opposed to one in international trade, and if you have problems with refining gasoline for your people now, you will really have problems in the future?

Coming to the table while we're offering the carrots, but with the certainty that we already know from financial operations that are far too complex for me to understand or to describe, how you really tie up a country in an electronic age. This is a different kind of, not warfare, but very aggressive activity.

It doesn't involve killing people and bombing people and so forth. You just simply cut off the account at the bank and therefore stifle growth, cripple financial dealings and significantly alter the incentives.

I think that probably the Iranians understand this, but I'm just curious as to whether our allies understand the effectiveness, and whether they're prepared really to be thoroughgoing with this arrangement.

Secretary BURNS. Well, I think, Senator Lugar, that the recent EU step—the assets freeze on Bank Melli, which is Iran's largest commercial bank—is a very encouraging sign in that respect—

Senator LUGAR. Very important.

Secretary BURNS [continuing]. Because Bank Melli is the bank through which the Iranian regime does a lot of business. And it seems to me that that, coupled with the other steps, both multilaterally as well as the autonomous U.S. steps against the Iranian banking system, are beginning to take a toll.

There's more that we can do. We certainly haven't exhausted all the diplomatic possibilities or the economic possibilities, especially in the financial sector. I think it's encouraging to see the EU take that step. It gives us another argument we can use, for example, in the gulf, where oftentimes, whether it's Dubai or other places, people in the past—and I've heard the same argument—have said, well, why should we act when in London or some other European capital Iranian banks can function. Now there's a pretty good counterargument to that, given the step that the European Union has taken.

So I think we have an opportunity to mobilize more pressure, but I think we are making some progress in that area.

Senator LUGAR. Thank you very much.

The CHAIRMAN. Thank you, Mr. Chairman.

With the permission of our witness—and I mean this sincerely—we're going to vote in just a few minutes. It's an important vote. The leader has asked us to be, at least on the Democratic side, in our chairs before this vote begins, which will begin in a few minutes.

My friend from Florida only has one question. He can ask as many questions as he wants, but he only has one question. What I respectfully suggest we do is I'm going to yield to the Senator from Florida. When he finishes, maybe we could adjourn until the vote is over. That'll be about 15 minutes on Senate time. It's supposed to be 6 minutes or 7 minutes, but I'd say between 10 and 25 minutes. I can't guarantee that, but I promise, because your testimony and the questions all of us are asking, it's good for each of us to hear the totality.

So is that all right with you?

Secretary BURNS. Yes, sir.

The CHAIRMAN. All right. With that, what I'm going to do is I'll turn the gavel, the questioning and the gavel over to my friend from Florida, and when he finishes, unless you want to stay—

Senator LUGAR. No.

The CHAIRMAN [continuing]. When you finish your questions, if you'd recess to the call of the chair, which should be immediately after the vote, which is to occur in the next 5 minutes.

Senator BILL NELSON. Mr. Chairman, you don't want me to turn the gavel over to the Senator from Indiana when I leave?

The CHAIRMAN. I'm happy to have you do that, but he's going to leave too, I think. So it's going to be you by yourself. You're on your own, boy. [Laughter.]

You know what I mean? As Lawton Chiles would say, "You're on your own, boy." All right.

Anyway, I yield to my friend from Florida.

Senator BILL NELSON [presiding]. It'll be two quick questions. What is the significance of the missile launch today?

Secretary BURNS. Senator, the missile launches that we saw today are very disturbing, provocative, and reckless. They're a re-

minder that Iran is continuing to try to expand and develop its missile program.

Senator BILL NELSON. Let me refine my question.

Secretary BURNS. Yes, sir.

Senator BILL NELSON. What is the significance of the timing of the launch today?

Secretary BURNS. It's always a humbling experience to try and determine the motives behind particular actions on the part of this Iranian regime. Sometimes they act in conflicting ways. On the one hand we see some positive noises about the proposals that Mr. Solana made and on the other hand in recent days we've seen not only the missile launch, but some extremely reckless and pugnacious public statements.

Senator BILL NELSON. The fact that there was a sequence of nine launches of the Shahab-3, any significance to that sequence?

Secretary BURNS. Subtlety has never been a hallmark of Iranian behavior and it's a way, it seems to me, of reinforcing the point they're trying to make.

Senator BILL NELSON. There was a former FBI agent named Bob Levinson who disappeared a year and a half ago on Kish Island in the Persian Gulf. The administration basically dropped this case for a year, and about 6 months ago, with the persistence of a distressed spouse and seven children, this has now come way up in the attention of the administration and there are some things that are happening.

Since you're the number three in the State Department and this Senator has visited various other Departments of the United States Government, can you assure me that Mr. Levinson's case is a priority issue for Secretary Rice and the State Department leadership?

Secretary BURNS. Yes; it certainly is, Senator, and I look forward to seeing Mrs. Levinson next week, and we will continue to press as hard as we can on this issue.

Senator BILL NELSON. A lot of this is extremely sensitive information, but for purpose of this open forum is there anything that you want to share that would be an update on Mr. Levinson's case?

Secretary BURNS. Senator, there's not much in this format that I can share, but I'd be glad to meet with you to provide a more detailed update. We're continuing to press this case hard. We've pressed the Iranian regime on several occasions using the Swiss channel. We still have not gotten satisfactory responses. We've encouraged other governments to raise this issue and are appreciative of those who have. We'll continue to push very hard, and I'd be glad to in another setting to describe in more detail what we've done and where we are.

Senator BILL NELSON. If such a negotiation does proceed that you've been discussing with the chairman and the ranking member, who are the players within Iran that have the clout to broker the deal?

Secretary BURNS. Well, as I said before, humility is always a good starting point in trying to decipher the Iranian political system. Certainly the United States over the last few decades has gotten it wrong from time to time. But I do think it's clear that the Supreme Leader, Ali Khamenei, is the ultimate decisionmaker in

Iran. There are a number of centers of power within the regime. There often seems to be an active debate about tactics, whether it's over economic policy or even the nuclear issue. The current President represents one of those power centers, but there are others as well.

So I think the best thing we can do from the point of view of American interests and the interests of the international community is try to sharpen as best we can the choice that I described before, in other words the consequences of a failure to abide by Iran's international obligations, not only for the Iranian regime but for its people, and also what Iran and its people stand to gain by changing their behavior and meeting those international obligations, especially in the nuclear area.

Senator BILL NELSON. In this case would it not be the Supreme Leader that would be the decisionmaker?

Secretary BURNS. He certainly is the ultimate decisionmaker, it seems to me, in Iran.

Senator BILL NELSON. Well, let's talk about President Ahmedinejad. Is his influence on the wane or on the rise?

Secretary BURNS. It's hard to characterize it that way. He's certainly very outspoken about his views, but the reality it seems to me is that it's the Supreme Leader who is the ultimate decisionmaker.

Senator BILL NELSON. All right, the committee will stand in recess subject to the call of the chair.

Thank you.

[Recessed.]

Senator HAGEL [presiding]. The committee will come to order.

This may be my last opportunity to chair a hearing, Mr. Secretary, so I'm going to take advantage of it. I have my papers in order and it's certified and legal that I can go ahead and bring our committee together. My colleagues are on their way back, as you know, from a vote and Chairman Biden said to get started, so we wouldn't hold you up any longer.

Thank you again, Mr. Secretary, for coming. As always, we appreciate your good work and your leadership as well as your colleagues'.

I want to pick up on the line of questioning that Senator Lugar had with you, Mr. Secretary, on some of the points that you had made in discussing the recent P5+1 offer that had been delivered by Secretary Solana and the Iranian response and in particular, the point that both Senator Biden and Senator Lugar made about American presence at the followup meeting, which I believe you had said in response to Senator Lugar's question that you thought it would probably come in the next few weeks, that another meeting would take place.

My question is, Has there been discussion within the administration about an American representative at that next meeting? That's my first question.

Secretary BURNS. Senator, as I said, our position remains that Secretary Rice herself would be prepared to sit down in the negotiation along with the P5+1 Foreign Ministers on the basis of the suspension for suspension proposal that the P5+1 has made. We've also tried to demonstrate, hopefully in the runup to negotiations on

that basis, the seriousness with which we support the proposals that Mr. Solana presented, in particular her signature on the letter that Mr. Solana delivered along with that package of incentives.

So we've tried to make very clear not only our support but our active involvement in this process, and the seriousness of the choice that we and our partners have posed for the Iranians.

Senator HAGEL. That active involvement would include the consideration of an American there with Solana on the next visit?

Secretary BURNS. Well, sir, at this stage our position is just as Secretary Rice has outlined it and as I described it before. But we have certainly made very clear our support for this effort and the seriousness with which we view it.

Senator HAGEL. So then I take it from that answer that there's not been serious discussion within the administration about the possibility of having an American representative at the next meeting or at some point in the future with Mr. Solana?

Secretary BURNS. Senator, our position is just as I described it.

Senator HAGEL. Has there been any discussion as far as you're aware of a Russian presence at a followup meeting with Mr. Solana?

Secretary BURNS. Certainly the Russians, my Russian counterpart, did take part in the presentation that Mr. Solana made in Tehran a few weeks ago. The format for this follow-on meeting hasn't been determined yet as far as I know, so it's certainly possible that you could see political director level people there, including the Russians. But I don't think that's been decided yet.

Senator HAGEL. Thank you.

You noted in your testimony—and I had an opportunity to read your complete statement as well—as did Chairman Biden and Senator Lugar, that the complexities within the Middle East and certainly that are represented within Iran—I believe your comment was something to the effect that the complexities that exist in its society, in Iranian society, as well as the entire region—would dictate a regional strategy and a context for that strategy, meaning the Syrian peace, obviously, as you noted, Hamas, Hezbollah. We have not really touched much upon Iraq here at this hearing, although we have to some extent, as Chairman Biden noted, the current Iraqi leadership in and out of Tehran. Ahmedinejad, as you know, of course a few weeks ago was in Baghdad. Most of the Malaki government had been exiled in Iran and have relationships.

And that has been ongoing, which I have always viewed that as positive. But in that larger universe of strategic thinking and with this administration having about 6 months left in office and, you have noted, wanting to hand off to the next administration a position that has us on some higher ground diplomatically, give me your strategic context of how we are going about that?

I think you should include in that, as I'm sure you would, the current engagement between Israel and Syria that was initiated, brokered, by the Turks, and any other piece of that that you can mention, because obviously that relationship between the Israelis and the Syrians would have an effect, does have an effect, on the Syrian-Iranian relationship, and all those factors that are in play in this larger context.

So I know that's a big wide-open question, but I think we should try to focus that down and narrow that down, especially in regard to what do you think this administration can accomplish, what do you hope to accomplish in the next 6 months, with all those factors now in play? And I think we all, most of us, if I heard your testimony, recognize that this is going to require a regional strategy, not country by country—that's part of it, too—but the larger dynamic and the larger context.

And obviously we've talked about Russia and China playing in that, just as the 123 agreement is a good example. We need the Russians. The Russians need us. They are critical to whatever we can do advancing a diplomatic solution with Iran.

Thank you.

Secretary BURNS. Thank you, Senator. I think in terms of the broad strategy in the region, the first thing that it's important to understand is that you have to connect the dots. In other words, you have to, in terms of promoting American interests, pursue a strategy which is going to deal in parallel with a number of very important challenges, and you highlighted most of those that occur to me.

But my point is it's not an a la carte menu. We have to be serious about a whole range of issues which go from economic modernization and helping societies to open up greater economic opportunities. It certainly includes the challenge of creating more modern political institutions over time.

But it also includes building relationships and partners to deal with regional problems like the spread of weapons of mass destruction and violent extremism. It certainly goes right to the heart of issues at the core of the concerns of most people in the region, like the Arab-Israeli conflict, both in its Palestinian-Israeli dimension and, as you mentioned, the Syrian-Israeli as well as Lebanese-Israeli tracks.

So I think as you look at the challenges over the coming months and for years beyond that, it's important for us to be serious first in doing everything we can to stabilize the situation in Iraq and create a more hopeful set of circumstances there. That means engaging Iraq's neighbors and deepening their stake in Iraq's stability. As I mentioned before, we've seen some encouraging signs from Arab states that they're willing to do more, especially as they've seen the Iraqi central government beginning to expand its confidence and its capacity a little bit.

It's important to stabilize and do everything we can to help stabilize the situation in Afghanistan. It's important to look at building regional mechanisms such as the so-called GCC plus 3, the six gulf countries plus Egypt, Jordan, and Iraq, which I think is a good mechanism in terms of harnessing the common interests of those states, not least because of the signal it sends to Iran.

I think you rightly mentioned the value of the indirect talks between Syria and Israel which the Turks have helped to facilitate over recent months. That's something that we encourage. And I think the net result of all these things, if you just look at the particular challenge of Iran, is on balance very positive, because what it does is help to sharpen the choice that I was describing before for the Iranian Government and its people. It helps to create a

clearer picture of what's possible in the region and what's possible for Iranians if they change their behavior on the nuclear issue and in other areas.

It also helps sharpen the consequences for them—the likelihood of greater isolation, of being out of step with the kind of trend lines that I hope we can promote in the region. That's all much easier said than done, but it just seems to me that those are the main challenges before us as we look out the next 6 months, but then well beyond.

The CHAIRMAN [presiding]. Mr. Secretary, I have many more questions, but we and the staff have had an opportunity to spend some time with you and you've had a long day. You were over in the House as well today. I just want to end at least my comments and questioning with a request.

I'd ask you to seriously take a look at how we interact with civil society in Iran. Specifically, I really would urge the administration to issue a general license to permit American charities to expand their own—excuse me—to be able to expend their own funds inside Iran supporting human rights, women's rights, and other civil society activities inside Iran.

The high hurdles in place today have had a really chilling effect on the groups with which I've spoken and my staff on American nongovernmental activities inside Iran. I find these to be incredibly self-defeating and I think they have, these hurdles, have a perverse impact of supporting the policies of Iranian hardliners who don't want the Iranian people to interact with any outside human rights or prodemocracy NGOs or forces.

So I'd like to ask you to take a hard look if you would at this policy. I know you to be conscientious about this. When you do, if you could let us know whether or not the administration would be able to support a general license for American NGOs. I think it would be—it would be presumptuous of me to say, I think it's totally consistent with your testimony and the administration's enunciated position today, and it would just be appreciated if you'd take a look at it.

Secretary BURNS. I'd be glad to do that, sir.

The CHAIRMAN. Mr. Chairman.

Senator LUGAR. I'd just like to ask a general question. As you return to these responsibilities and attempt to establish your own judgment about Iran, what are the basic sources of information we have about the country? Clearly there are international news services to some extent, maybe some of our own reporters from time to time, although this is less likely, I guess. Perhaps the Iranian Government makes available some statistics. But, aside from the nuclear question or the questions of war and peace, do we have good data about agriculture production, about income levels in various provinces of the country, and the interaction of those areas with the central government, infrastructure repairs or new infrastructure of the country, or what role are television or computer technology or the new aspects of the electronic world playing in the country?

I ask about this simply because it seems to me that this kind of information is important obviously to people in the legislative business, such as ourselves, even more important perhaps to you as one

who may be interacting with those who are making policy for the country. It seems to me that one of our great problems in the past, to pick another country, North Korea, has been that we have very, very little access to information in the country, and this was deliberately the policy of the North Koreans, I suspect, to deny this knowledge, not just to us but to the rest of the world.

Occasionally, through the World Food Program or through other situations in which we intersected with North Korea, we found a great deal and that was helpful in terms even of our humane policies toward the country. But I stress this because I'm hopeful that our policy will never proceed on misinformation, lack of information, and by this I don't mean covert intelligence; I mean literally the kind, the bulk of data that leads us to successful thoughts about what is going on and therefore maybe greater originality in the formation of our own policies.

What have you found to be at least the general sources and how adequate are they about Iranian information, and to what extent are there people that you have encountered in Iran who are willing to make more information rather than less available? Are there those who see a need for a more encyclopedic outlook on our part to be a good thing?

Secretary BURNS. Thank you very much, Senator Lugar. Certainly Iran is not nearly as opaque a society or a political system as North Korea is. But our sources of information are not complete, in part because we haven't had a diplomatic presence on the ground for 30 years, as we do in most every other country in the world.

But there are other sources of information. You mentioned a number of them, whether it's journalists who come in and out, it's other foreign embassies with whom we're in touch, or Iranians who come out from time to time and take part in academic conferences. So there is a lot of information out there, but it's not always complete, and I would be the last person to suggest that our appreciation or our insights into a lot of those very important sectors of Iranian society or the Iranian economy are complete. There's certainly more that we could learn.

Senator LUGAR. Well, you mentioned no diplomatic presence for 30 years and at the beginning of that period, that is 30 years ago, our information was not very good either. At that point Secretary Blumenthal, who was then-Secretary of the Treasury, decided to take a mission, perhaps at the behest of President Carter, and he asked me as a junior Senator to go along with him, maybe to give a bipartisan cast to the situation. But I was honored to do that.

We went to Tehran and we were in the Embassy there which was to be occupied by others a few months later. Already it was clear just if you had eyes to see. A theater was blown up on one end of the square near our Embassy. Something had happened there. Americans who were coming to see the Secretary had to leave by 6 p.m. because a safety curfew or so forth had been imposed. And there were rumors that the Ayatollah was regularly broadcasting from Paris. Even just regular Iranians were telling us about the excitement of these broadcasts on the forthcoming activity.

As we talked to the Secret Service people, the Savak, they had a point of view that was very interesting. The Shah himself had a very interesting point of view.

I make a point of saying all of this because I would suggest that at that point our country did not have the same opportunity that Secretary Blumenthal and I had to see and to report. Now, unfortunately it was very, very late in the game and the Shah had unfortunate views which were not very accurate likewise, quite apart from the Savak, and the rest of us could only sort of fill in where we hoped our policy might go. But nevertheless, the consequences of that have been very severe for 30 years, that there really was not that much engagement.

Now, our Ambassador at the time I'm sure was doing his best to inform his superiors back in Washington, but obviously whatever he was communicating was inadequate for the purpose because folks just didn't get it back here.

This is why I am hopeful that as we move toward the so-called carrot and stick approach, the meetings and so forth, we try to think through how using the resources of our allies, friends in Iran, neighbors, and so forth, to begin filling in the blanks in terms of general information, because we are much more likely to make better policy, better calculations, on that basis, rather than on sweeping doctrinal views, which I'm afraid characterize much of the rhetoric about Iran now and hopefully not our official analysis.

Thank you very much, sir.

Secretary BURNS. Thank you.

Senator KERRY [presiding]. Thank you very much, Senator Lugar. It's fallen to me to close this out. Senator Hagel, I'm going to ask some questions, but did you have more afterward?

Senator HAGEL. I have two—two questions after you're finished.

Senator KERRY. Well, I'm not going to be long because I've got some visitors waiting.

Secretary Burns, welcome and I'm sorry I have to go in and out here. We just had a wonderful moment on the floor of the United States Senate. You may have heard. Senator Kennedy came back to vote and made the difference, and we managed to pass the Medicare bill. That was a good moment.

I just came back from a trip to Saudi Arabia, Egypt, and the Middle East. I must say I was really struck by two things. One was the preoccupation of all of these countries with Iran. There was a statement by one of those countries' leaders, quite angry, that the United States had served up to Iran on a platter a country called Iraq. And there was a feeling that Iran has complicated these countries' options. We have complicated these countries' lives significantly through our lack of judgment, ineptitude, or whatever.

Almost all of these countries counseled us not to go into Iraq in the beginning, and I'm sure you're aware of that. So now we're working to try to put these complicated pieces back together.

What also struck me was when I was in Sharm al-Sheikh and met with President Mubarak briefly during the African Union meeting. I can't tell you how disturbing it was to have Robert Mugabe there, and to listen to some of those countries make excuses. It struck me that we've reached a strange point in global

affairs. Senator Lugar is a great student of global affairs, as is Senator Hagel.

I'm not sure that the leaders of the past would have been as quiet, undisturbed, and unmotivated to come together as many leaders are today. In a sense, the world has lost outrage about Zimbabwe, about Darfur, and about many other places where people are interfering, where people are blowing people up, and where there's a very clear departure from the standards that folks gave their lives for and worked hard to achieve in a global context for most of the last century.

So it's in that context that I'm really disturbed by the administration's approach. Now, your comments, I was here for that part of it, and your testimony is a change, but it's a change that comes on July 4, months before the next election. Frankly, there is little ability for this administration to do the kind of lifting that needs to be done in order to change the dynamics with which we're currently presented.

I noticed in your own comments that you talked about how you want to leave the next administration with something that is X, Y, or Z. That's admirable, but when you say we shouldn't let the Iranian regime off the hook, I blanched a little bit. That is exactly what has happened for the last 7 years. They've been let off the hook. And for 3½ of those years, the British, French, and Germans were working diligently to try to create some kind of initiative, and we gave them the stiff arm and stood at arm's distance. We set up a condition. The condition was give up your enrichment before anything else happens. That has resulted in nothing else happening, but it has resulted in about a 400-percent increase in Iran's enrichment activities.

At some point you've got to stop and say: "This isn't working; you're digging a hole." What bothers me is that the world is sitting here and it's disturbing. I had the privilege of meeting with former Prime Minister Tony Blair a few weeks ago and we talked about this. It was interesting to hear his perspective now that he's departed office. He was talking about how you have global leaders saying: "You can't have this," but how you also have global leaders who haven't really crossed the threshold of making the decision to back up that policy.

People who are good at reading the tea leaves are sitting there reading them and they know this. Hamas is stronger, Hezbollah is stronger, and Iraq is confused. We hope Iraq is coming out of that confusion, but it is hard to tell at this point.

I think you see where I'm going here. The dynamic is: How do you change this? Let me share with you examples of that loss of outrage. There's been a lot written in recent months about the potential of Israel, the United States, or both using military force to deal with Iran. Obviously none of us here believe that option should be taken off the table. It is an option.

But there has not been a lot written about what global unified true sanctions would achieve. We did it in South Africa. I was on this committee when we did it. I remember the talk about how multilateral action is more effective than unilateral action.

Incidentally, in terms of the loss of outrage, Burma is another example. Lighthearted little sanctions that do almost next to nothing, and we all know what China's interests are, et cetera.

So I don't think, Mr. Secretary, that we're doing a very good job of leveraging our morality, our values, our interests, and creating the kind of unified global effort necessary to calm the world down, to deal with terror that's popping up in country after country now—Afghanistan, the Indian Embassy, Baghdad. I mean, you run around.

Let me throw a few things at you. An international arms embargo could have a profound impact. Resolution 1747 called for it, but it didn't require it. Are we serious if we don't require something and just call for it?

With Resolution 1737, you could eliminate the exemption for sanctions on the Bushehr nuclear reactor project. Russia has some issues there, but those should be on the table as well.

Or, consider a broad freeze on Iran's facility assets abroad. Resolutions 1737 and 1747 freeze assets, but only on specific entities and individuals. If you want to have an impact on the Iranian middle class and the technocrats, let's get serious about restricting the flow of capital, restricting investments, controlling energy, et cetera.

A ban on the inspection of international flights to and from Iran would have a significant impact as well. We did that from Libya after Pan Am 103 and it had a profound impact on Tripoli.

Consider a ban on worldwide investments in Iran's energy sector. A ban on exports of refined oil or other products and a ban on purchases of Iranian oil and related trade.

There are a number of more serious things about which I don't hear enough talk and that I don't see on the international table. These are things I think ought to be the subject of discussion before we're talking about going to war again with 150,000 troops on the ground in a country that is already pretty bogged down.

Now, I'd like you to comment on that possibility of sanctions. The final comment I want to make is on, as you say in your testimony, the diplomatic tool as a possibility and our envoys in Baghdad. I happen to know how restricted our message has been, and I think you do too. It's not a full and legitimate diplomatic engagement or dialogue. Our Ambassadors and our interlocutors are instructed what to say and can't go beyond it. It's a message of do this or else.

So share with us strategically how we can get into a better discussion of these sanctions, build this larger consortium of energy and effort, and finally, begin not to hold out the punishment before we engage, as we have done historically with China, with Russia, and with the Soviet Union—quite successfully, I might add.

Secretary BURNS. Thank you very much, Senator Kerry. On the first broader strategic question, I think you have very accurately highlighted the reality that there's a lot more that can be done through diplomatic means, through means of tightening economic pressure, to sharpen the choice for Iranians. We have, I would submit, made some progress in that direction. The recent steps that the EU has taken, especially with regard to Iran's largest bank, Bank Melli, are a reminder of the impact that those kind of steps

can have, but they're also a reminder that there's more that can be done.

The challenge, as you well know, is how do you mobilize others to take those steps? That involves leadership on our part, our willingness to take autonomous steps, as we have with regard to some Iranian banks before others were prepared to do it. But it also involves us being engaged in a genuine give and take with our partners as well to demonstrate that we're willing to invest in both tracks of our policy, to make clear that whenever we take a diplomatic step or think about a form of tightening pressure or a possible incentive, that what we have in mind is not just the Iranian regime and the impact it's going to have on the Iranian regime, but also the Iranian—the broader Iranian audience, the Iranian people, for whom we're trying to sharpen this choice, but also I think the international coalition we're trying to build, because there's a lot of steps that we've taken and that we may take in the future that I think may help to reinforce that international coalition and over time, if Iran is not willing to change its course and change its behavior and meet its international obligations in the nuclear field, will enable us to build greater and greater multilateral pressure, because that's—because that I think is what—and you've cited some other cases where this has been true over the last 20 or 30 years—it's that multilateral pressure that ultimately is going to have a greater impact.

Senator KERRY. I couldn't agree with you more, but it's such a tragedy that we're only getting to this now in July 2008. It seems to me that this strategy was obvious a number of years ago. I'm not picking on you. You weren't there. You had a different portfolio. You're new to this role.

Secretary BURNS. But let me just—all I wanted to add—I'm sorry, Senator—is I think over the last couple of years in particular we have taken steps in that direction. Sometimes they've been frustratingly slow, not because we wanted them to be slow, but because it's difficult to challenge and mobilize our partners.

But we have begun to move in that direction. My only point is there's more we can do and I think if we're ambitious and creative about it there's more that can be accomplished in the coming months that can put us in a stronger diplomatic position and help sharpen that choice for Iranians.

Senator KERRY. We all wish that. I think that the signature of the Secretary on the publicized P5+1 offer letter has had an impact, and I think that goes to underscore the degree to which engagement can perhaps make a difference here.

I don't want to belabor this now. I'd like to ask some more questions, but honestly I'm not able to. But it did strike me in the conversations I had in Israel that, while there are perhaps deep—and you know this—deep reservations about the ability of some of these things to have an impact, they obviously view this in existential terms and it's their terms, which are more real and immediate, and we have to be sympathetic to that.

Nevertheless, they did acknowledge that these other kinds of sanctions on a global basis could have a profound impact and make a difference. I think how they're offered, how they are proffered, is particularly important. I think that the United States needs to

assume, to some degree, a different attitude here. I don't mean diminishing our declaration of the seriousness of the situation or our commitment to resolve it one way or the other. I mean simply approaching the table as a diplomat, in a way that allows people to come back to you and talk to you and not feel as if it's a take it or leave it, all or nothing, threatening kind of discussion.

I think to the degree that we are able to maneuver that way we're going to open up more channels of communication and, frankly, open up possibilities.

So I look forward to that, and I wish you success in that effort.

I'm told Senator Feingold is coming. I'll yield to Senator Hagel. I'll just be in the back room and then I'll come back in. Thanks.

Senator HAGEL. Senator Kerry, thank you.

I just have one additional question, Secretary Burns. As we all recognize, Iran shares borders with the two countries where America is currently at war. We have 150,000 troops roughly in Iraq, roughly 35,000 troops in Afghanistan, and we'll be putting more American troops in Afghanistan. And the common denominator, among many, is that Iran shares a border with both Afghanistan and Iraq.

We talked a little earlier this afternoon about Afghanistan obliquely and I want to come back to that in a moment. But we referenced more directly the Iraq-Iran connection with the current leadership in both and their engagement. We can term it any way we like, but it's clearly engagement. I think, for all the flaws and imperfections in this business, engagement is almost always preferable to the alternatives.

Now, we recognize and you certainly do, even though your portfolio didn't have all the specific responsibilities when we first went to war in Afghanistan the Iranians cooperated with us on different issues, one being on illicit drugs crossing their border; unrest on their eastern border. And they didn't cooperate with us, as you know, because, I don't believe, they wanted to do us a favor or it was President Bush's or Vice President Cheney's winning personality. It may have been. But they did it very simply because it was in their common interest. It was clearly in their interest and that's what engagement is about, because that's what gets to a negotiation. Both sides have to get something out of the deal. There's a reason for both sides to sit down, just exactly what's going on in North Korea today, the six-party talks. All six parties to those talks have a reason to be there. It is in the common interest of all six nations, just as it was in the interest of Libya and the United States, and every conflict where we eventually resolve it with some kind of a diplomatic resolution, just as General Petraeus told this committee, as you know, 3 months ago, there is no military solution in Iraq. Well, of course not.

So with that as a bit of a base to work from, I want to go back to something that was mentioned, and I think you brought it up and maybe it was in response to Senator Biden, in noting the most recent P5+1 proposal Mr. Solana took to the Iranians. I think you termed it suspension for suspension. Or another way I heard it is freeze for freeze, that, as you have explained it, freeze in place or suspend it in place, no more of this and this side will do no more

of this, and then hopefully we can start working our way towards something.

Now, as far as I know that's a new part of the proposal, and I'm going to ask you to respond to that. This dynamic that was put forth in this most recent proposal was something new, and my understanding is that it was to try to get around, essentially get us out of the diplomatic cul de sac we find ourselves in with Iran on our insistence, the U.S. insistence, and our allies, that preconditions be met before we will talk to you. And the Iranians have said, no, we're not going to do that.

I've never quite understood why we would do that to ourselves, but nonetheless we are where we are and we've got to find a way to back out of that so obviously all sides can save some face here and we can get ourselves back onto some serious ground to try to engage a serious issue in a serious way to find a serious resolution.

Now, would you enlighten us a little bit more on what you understand that part of the proposal to be and what its significance is, if there is any?

Secretary BURNS. Sure, Senator Hagel. Our goal again, just to repeat, remains very clear and that is through concerted diplomacy to ensure that Iran does not acquire nuclear weapons capability. The negotiating proposal that we and the P5+1 have put on the table is aimed at negotiations based on suspension for suspension. But Mr. Solana has also introduced the idea of freeze for freeze as an interim step, as a way of talking about how you get to negotiations.

The idea of freeze for freeze is that for a fixed, short-term period of 6 weeks we would agree to freeze, we the P5+1 would agree that we would not seek any new Security Council action against Iran, and during that same fixed period Iran would not engage in any new nuclear activity. In other words, it wouldn't add additional centrifuges to its effort.

Again, I would emphasize we're talking about a step that's designed to get to negotiations, a fixed period for a fixed goal, which is to begin negotiations, as we have made clear for some time, based on suspension for suspension. So that's the concept, and I think that within the P5+1 it's further evidence of our seriousness about reaching a diplomatic solution of this very, very serious problem.

Senator HAGEL. If I may—and thank you for the explanation. So if this is accepted, and it may well be—I don't know if the Iranians have responded completely or affirmatively to this. But if it is accepted—and I assume it's been accepted by the six parties on our side or it wouldn't have been in the proposal. But if the Iranians accept it, then what would be the next step?

Does this mean then that the United States would be directly engaged in the next step with the Iranians or our partners? Or what does this mean as to the next step?

Senator KERRY. Can I just, before you answer that? I'm going to leave the gavel with our good ranking member.

Senator HAGEL. Is Senator Feingold coming back?

Senator KERRY. He is not. Apparently he's not going to be here. So I appreciate that.

Senator HAGEL. Thank you.

Senator KERRY. Thank you very much.

Secretary, thanks so much for being with us. We appreciate it.

Secretary BURNS. Senator Hagel, on the question of American participation, direct American involvement, our position remains as I described it before. In other words, what Secretary Rice has said publicly, that she would be prepared personally to engage at the ministerial level with the Iranians, along with their P5+1 partners, in negotiations on the basis of suspension for suspension.

The freeze for freeze concept is an idea that was introduced in Mr. Solana's conversations as a way of getting us to that point and of demonstrating our collective seriousness.

Senator HAGEL. Thank you, Mr. Secretary.

Mr. CHAIRMAN.

Senator LUGAR [presiding]. Well, thank you very much, Senator Hagel.

On behalf of the committee, Secretary Burns, we thank you again for coming before us for your opening statement, which is a part of the record, as well as your oral testimony, and your great responses to our questions. We appreciate your service and wish you well, and please give our best to the Secretary as she proceeds in all the ways we have suggested.

The hearing is adjourned.

[Whereupon, at 5:13 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED TO UNDER SECRETARY WILLIAM J. BURNS BY SENATOR RUSSELL FEINGOLD

Question. I'd like to ask you about the National Intelligence Estimate—or NIE—which was released last December and which assessed that Tehran halted its nuclear weapons program in 2003. The NIE also assessed that Iran has the scientific, technical and industrial capacity to eventually produce nuclear weapons if it decides to do so. This is deeply troubling and requires our continued—and collective—vigilance. But a coherent policy to keep Iran from developing nuclear weapons requires that we are all operating from the same facts, or at least the same intelligence assessments. Tom Fingar, the Deputy Director of National Intelligence for Analysis, has said that, to his knowledge, nobody who has actually read the entire NIE has challenged its judgments. Do you agree with the NIE's judgments and does the NIE represent the current intelligence assessments on which U.S. policy is based?

a. The President has reportedly said that Iran has declared that it wants a nuclear weapon. Is that statement accurate?

b. The Vice President has reportedly said that Iran is involved in the enrichment of uranium to weapons-grade levels. Are you aware of any evidence supporting this statement?

Answer. The 2007 National Intelligence Estimate on Iran is the U.S. Intelligence Community's latest in a series of documents on Iran's nuclear program and intentions. It is important to consider the totality of the NIE's conclusions. In this NIE, the U.S. Intelligence Community assesses with high confidence that Iran halted its nuclear warhead development work, as well as clandestine uranium enrichment and conversion activities, in the fall of 2003 in response to international scrutiny and pressure.

However, the U.S. intelligence community also assesses that Iran, at a minimum, is preserving an option to develop nuclear weapons in the future. The U.S. intelligence community noted that Iran is continuing to engage in work that could be applied to the production of nuclear weapons, including uranium enrichment and other conventional military and commercial projects. Further, the NIE makes clear that the U.S. Intelligence Community cannot provide assurances that Iran has not or will not restart its nuclear weaponization-related work.

The development of nuclear weapons generally depends on three pillars: fissile material production; the ability to construct a warhead; and, a useable delivery system. The production of fissile material is the most time-consuming aspect of nuclear weapons development and the same centrifuges that can produce low enriched uranium for reactors can produce highly enriched uranium for weapons. The International Atomic Energy Agency (IAEA) continues to report on Iran's efforts to enrich uranium and to expand its capacity to do so. It is for that reason that the Intelligence Community did not dramatically change from the last NIE its estimated timetable for Iran's capability to produce highly enriched uranium that could be used in a nuclear warhead, assessing with moderate confidence that this could be achieved in the 2010-2015 timeframe, while noting it could also take longer. The Department's Intelligence and Research Bureau assessed that the capability was unlikely to be achieved before 2013. Iran's missile tests of 9 July demonstrate again that it has missiles capable of delivering weapons of mass destruction.

Iran's failure to disclose fully its past nuclear weapons-related work—or to provide substantive explanations for the extensive documentation made available to the IAEA by approximately 10 member states amplifies our concern that Iran is attempting to preserve a weapons option for the future.

If Iran wishes to establish international confidence in its nuclear intentions, its leadership should cooperate fully with the IAEA, answer its many outstanding questions, and suspend its uranium enrichment-related, reprocessing, and heavy water-related activities as required by the UN Security Council. The ball is Iran's court.

Question. The State Department has said that Iran provides Hezbollah with weapons, training, and political, diplomatic, and organizational aid. It has also said that while Hezbollah is closely allied with Iran and often acts on its behalf, it also can and does act independently. To what extent is Iran responsible for Hezbollah's activities in Lebanon?

Answer. Iran is Hezbollah's largest state sponsor. Iran and Hezbollah have had a long-standing relationship in Lebanon. Iran provides Hezbollah with funding, weapons, training, political and diplomatic support. In return, Hezbollah often works with Iran to accomplish Iranian goals. The relationship between the two continues to grow. We remain concerned about Iranian support to Hezbollah, some of which violates Chapter VII obligations under UNSCRs 1701 and 1747.

The U.S. has continued to appeal directly to governments in the region whose territory and airspace has been used in Iranian-sponsored efforts to re-supply Hezbollah. The U.S. is working closely with regional partners, particularly the Governments of Turkey, Lebanon, Iraq, and Jordan, to prevent further weapons transfers to Hezbollah and other terrorist groups. More broadly, we seek the involvement of all allies to condemn and confront Iranian support for terrorism in their dealings with the Iranian government, diplomatically as well as commercially. We are sharing intelligence with our European partners, as well as allies in the region, with the goal that this information will better enable actions to prevent Iran from illegally transporting weapons or using the international financial system to finance terrorism.

Question. On June 23, ABC News reported that there may be an opening of a US presence—an "interests section"—in Iran as part of our effort to reach out to the Iranian people in various ways. Can you confirm whether the administration is planning to open an "interests section" in Iran and if yes, what will be its main objectives? What might we expect from having such a presence?

Answer. The Department cannot comment publicly on the internal deliberations. However, we have a long-standing and strong interest in reaching out to the Iranian people.

Question. In referring to a potential direct military clash with Iran while still fighting in Iraq and Afghanistan, Chairman of the Joint Chiefs Admiral Mullen recently stated that "[o]pening up a third front right now would be extremely stressful for us. [t]his is a very unstable part of the world, and I don't need it to be more unstable." Do you believe that the recent U.S. Navy exercises carried out in the Gulf might further raise existing tensions? As State seeks to maintain a united international front and strengthen existing UN sanctions, do you think such actions are helpful?

Answer. I would refer you to the U.S. Navy regarding any particular naval exercises in the Gulf. Generally, our naval exercises provide opportunities for our forces and those of our friends and allies to improve their military readiness, interoperability, and command and control systems. Additionally, executions of credible and professional military exercises instill mutual confidence in all partners involved. We

also hope that the exercises and participation by friendly and allied states will encourage caution on the part of potential adversaries.

Question. How would bilateral sanctions on Iran's central bank help or harm multilateral diplomatic efforts? What about tightening existing bilateral sanctions on US companies that invest in Iran by sanctioning parent companies? This is a loophole I have sought to close through legislation that would toughen ISNA, but I understand the State Department has concerns that such an expansion might have an adverse affect on our transatlantic relationships. Can you address this concern?

Answer. As a matter of policy, we do not comment on possible options that we may want to employ. On March 20, the Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued an advisory to U.S. financial institutions about the risk Iran poses to the international financial system. This advisory explicitly references Bank Markazi, Iran's Central Bank, for deceptive financial practices and underscores the concern that it may be facilitating transactions for sanctioned Iranian banks.

While we continue to closely monitor Bank Markazi, any direct measures against the Central Bank would require careful consideration before they are enacted for their potential impact on the Iranian population and ongoing multilateral efforts. Designation of the Central Bank would be a significant step that could have repercussions for Iran's ability to control inflation and respond to other economic crises. In addition, such action could also adversely impact private sector trade, energy prices, and delivery of humanitarian assistance. Designation of Iran's Central Bank may find strong resistance among the international community, thereby undermining our steady efforts to maintain firm multilateral pressure on Tehran. These concerns do not eliminate this option, however, we would need to carefully consider the ramifications before taking such an action.

Foreign subsidiaries of U.S. companies are often incorporated in other countries and act outside of U.S. jurisdiction. We have lobbied countries around the world to take actions to pressure Iran, including by developing their own sanctions against Iran. In addition we hold direct consultations with foreign companies about the risks of investment in Iran. We will continue to apply sanctions on companies and entities that support Iran's WMD, delivery system and advanced conventional weapons systems under the Iran, North Korea, and Syria Nonproliferation Act (INKSNA).

Question. How are you addressing Iran's overall strategic influence in Iraq and how does that impact our policy towards the region?

Answer. Due to its geography, size, and natural resources, Iran is an important player in the region. However, we are deeply concerned by Iran's destabilizing influence in the region, including its threats toward other countries in the region, its sponsorship of terrorism, and its pursuit of sensitive nuclear technology.

President Bush noted on 10 April that the Iranian regime has a choice to make: it can choose to live in peace with its neighbors, enjoying strong economic, religious and cultural ties, or it can continue to arm, fund and train illegal militant groups, which are terrorizing the Iraqi people and turning them against Iran. If Iran continues down the current path, Iran's leaders should know that we will take active measures to protect our interests, and our troops, and our Iraqi partners.

As pledged by the President, our forces, in cooperation with our Iraqi and Coalition partners, have destroyed Iranian-supported lethal networks, recovered large weapons caches, and disrupted cross-border arms trade. In the past few years, we have learned a great deal about these networks and their Qods Force sponsors, particularly from individuals captured and detained by our forces. This knowledge has allowed us to improve our methods for tracking and disrupting their operations.

We are encouraged by the Iraqi government's recent successful actions against Iran-sponsored groups in the South and East, and we believe that Iraqi-led efforts toward Iran will yield the best results in terms of convincing Iran to play a productive role in Iraq's future. We continue to support our Iraqi partners toward this end.

ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED TO UNDER SECRETARY
WILLIAM J. BURNS BY SENATOR ROBERT P. CASEY, JR.

Question. Do the United States and Israel share a common assessment of Iran's nuclear program, the progress Iran has achieved to date on nuclear weapons capability, and the remaining steps required for Iran to produce a nuclear weapon if it makes that decision? If not, what are the differences?

Answer. The U.S., Israel, and indeed most of the international community agree that Iran is continuing to develop technologies that would provide it with a nuclear weapons capability despite our best efforts with a combination of diplomatic engagement and multilateral and unilateral sanctions to convince Iran that they should cease these activities. We also agree that at this time, the emphasis should remain on diplomacy—both incentives and sanctions—but that it also is critical that Iran understand that no option is off the table, including a military one. The U.S. and Israel agree that this is the last option, but it remains a viable one. I would be happy to share more information regarding our assessment in a classified setting.

Question. Has the U.S. government provided a clear signal to the Israeli government on how the United States would regard a potential Israeli military strike on Iranian nuclear facilities? Have we given the Israelis a “green light” or a “red light” on such action, or have we carefully avoided that discussion up to this point?

Answer. The Department is not aware of Israeli plans for a military strike. The international community—including Israel—has publicly committed to support the P5+1 dual track strategy which includes escalating pressure on Iran to persuade its leaders to abandon their nuclear weapons ambitions, while holding open the prospect of negotiations and benefits that could accrue to the Iranian people if Iran changes course.

The U.S. Approach to Iran

Last week, Seymour Hersh published a provocative article in *The New Yorker*, titled “Preparing the Battlefield.” Hersh wrote that last year, Congress agreed to a request from President Bush “to fund a major escalation of covert operations against Iran, according to current and former military, intelligence, and congressional sources. These operations, for which the President sought up to \$400 million dollars, were described in a Presidential Finding signed by Bush, and are designed to destabilize the country’s religious leadership. The covert activities involve support of the minority Ahwazi Arab and Baluchi groups and other dissident organizations. They also include gathering intelligence about Iran’s suspected nuclear-weapons program.”

Question. Is the United States funding covert operations on Iranian territory aimed at destabilizing the Iranian regime? Please provide this answer in a classified format if necessary.

Answer. As a matter of general policy, we do not comment on intelligence matters. Our policy goal remains to change Iran’s behavior.

Question. Does the U.S. government assess that the Iranian regime is susceptible to destabilization by various ethnic minority groups inside Iran?

Answer. Iran is a very diverse nation, with sizable Azeri, Kurdish, Arab, and Baluch populations. While Iran’s constitution guarantees ethnic minorities certain rights, in practice, these groups face varying degrees of repression. Few groups call for separatism, but instead complain of political and economic discrimination. Iran’s minorities occasionally attempt to demonstrate for their rights, and are prevented from doing so by the Iranian government. For example, in May 2006 there were large-scale riots in the Azeri majority regions of the northwest following publication of a newspaper cartoon considered insulting to Azeris. Police forcibly contained the protests, and police officials reported that four persons were killed and several protesters were detained.

P5+1 Approach to Iran

At today’s hearing, you acknowledged that Javier Solana, on behalf of the five Permanent Members of the UN Security Council and Germany, offered Iran last month a possible “freeze for freeze,” whereby, if Iran agrees to not expand its current uranium enrichment capability, e.g. install additional centrifuges, the P5+1 will agree not to press for additional sanctions at the United Nations.

Question. Please confirm the details of Solana’s offer to Iran are accurate.

Answer. The P5+1 refreshed package includes a range of incentives designed to persuade Iran to suspend enrichment- and reprocessing-related activities and enter into negotiations on a long-term agreement to address international concerns with Iran’s nuclear program. These incentives include wide-ranging economic, technological, and scientific benefits. The P5+1 have provided copies of the updated incentives package to members of UN Security Council, the IAEA Board of Governors,

and have also made its contents public after delivery to Iran. High Representative Solana plans to travel to Geneva on July 19 to further discuss the incentives package and compliance with international obligations with Iran.

Question. Why did the United States and our international partners walk back from their previous insistence that the P5+1 would only engage in negotiations with Iran only when it agreed to suspend all existing uranium enrichment activities, not just halt any additional activities?

Answer. The P5+1 position has not changed. Secretary Rice has stated on many occasions that she stands ready to negotiate with Iran on any issue, anywhere, anytime, once Iran suspends its enrichment-related and reprocessing activities as required under three UN Security Council Resolutions. The freeze-for-freeze proposal is a creative idea that the P5+1 developed to attract Iran to the negotiating table. If Iran agrees to stop all new nuclear activity, the P5+1 will also halt consideration of new UNSC measures during a time-limited period of six weeks in order to get Iran to the negotiating table. This is a short-term, interim step intended to get Iran to a suspension.

Question. Does the P5+1 incentives package to Iran, which includes a series of political and economic “carrots,” also include a comprehensive security guarantee to Iran if it meets our trepidations on its nuclear program and other areas of concern? If not, why is such a security guarantee not on the table?

Answer. The P5+1 refreshed incentives package includes an offer for a conference on “regional security issues.” This does not constitute comprehensive or any other type of security guarantees by the P5+1, which we do not believe are appropriate in these circumstances. Resolving the international community’s serious concerns about Iran’s nuclear ambitions would be an important step toward Iran playing a constructive, rather than a destabilizing role in the Persian Gulf region; this would naturally have a positive impact on Iran’s security. We are committed to the security of the Persian Gulf through our close and continuing security partnership with the members of the Gulf Cooperation Council. The P5+1 offer does not interfere in any way with these commitments.

