

**HEARING OF THE HOUSE FOREIGN AFFAIRS COMMITTEE
SUBJECT: IRAN: RECENT DEVELOPMENTS AND
IMPLICATIONS FOR U.S. POLICY
CHAired BY: REP. HOWARD BERMAN (D-CA)
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DEMOCRACIES**

**2172 RAYBURN HOUSE OFFICE BUILDING, WASHINGTON, D.C.
10:00 A.M. EDT, WEDNESDAY, JULY 22, 2009**

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REP. BERMAN: The committee will come to order.

I believe the ranking member will be joining us in just a moment. But before I begin my opening statement I want to make mention several procedural issues. In the context of all of our hearings, we request that the audience members do not hold up or wave signs, make gestures to attract attention, stand up in protest, shout or yell your views, or otherwise disrupt the hearing. And we will ask the Capitol Police to remove anyone from the room who violates this policy. And it is the policy of the Capitol Police to arrest anyone ejected from a hearing room.

After the ranking member and I have made our opening remarks, the chairman and ranking member of the Middle East

and South Asia Subcommittee will have an opportunity to make three-minute statements.

I'd strongly encourage other members to submit their statements for the record, or make any comments they may have during their time for questioning -- which will be extended for this hearing only. Because we have such a large panel, I would ask all the witnesses to summarize their statements in five to seven minutes. Your entire written statements will be made a part of the record.

And finally, the ranking member and I have agreed that all members will be given seven minutes to question the witnesses. This means that both the questions and answers must be completed within seven minutes, and we will enforce that time limit strictly. It's not the intention of the chair to break for lunch. We're going to plow right through until we're done.

I will now yield myself time for the opening statement.

No, I'm not bringing food either. (Laughter.)

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

Hundreds of thousands of courageous Iranians have taken to the street in defiance of the regime to protest the election results. The regime responded brutally to these peaceful demonstrators. By the government's own admission, at least 20 protestors were killed and some 500 are in prison awaiting trial. Most human rights groups say the actual numbers are much higher, with some putting the number killed well into the hundreds.

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

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

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

The facts on the ground are deeply disturbing. Iran has made significant progress on its nuclear program, far exceeding expectations of the recent past. According to the International Atomic Energy Agency, Iran has now installed more than 7,000 centrifuges and has produced enough low-enriched uranium to fuel a nuclear explosive device were that low-enriched uranium to be transformed into highly enriched uranium. And some would point out that this describes only Iran's overt programs. In many quarters the suspicion lurks that Iran also has a covert program that is even further along.

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

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

But while it is important to pursue engagement, it is also critical that these efforts be time-limited and that the

administration be prepared to try a different approach if Iran is not cooperating. As I understand it, that is exactly the administration's policy. The president recently said that Iran's willingness to engage will be re-evaluated in early fall, after the September 24th-25th G-20 meeting in Pittsburgh.

He has also said that, quote, "We're not going to create a situation in which talks become an excuse for inaction while Iran proceeds," end of quote, on its nuclear efforts. In short, if I can paraphrase the president, we should not allow Iran to run out the clock. I agree with the president's timetable. If by autumn the Iranians are not responsive to U.S. efforts to engage them, it likely will be time to move on, hopefully in close coordination with our allies in other key countries.

That is also my approach regarding H.R. 2194, the Iran Refined Petroleum Sanctions Act, which I introduced with the ranking member in April which is now cosponsored by well over half the members of the House. My bill would impose sanctions on companies that are involved in exporting refined petroleum products to Iran or in helping Iran to increase or maintain its existing domestic refining capacity. This legislation would force companies in the energy sector to choose between doing business with Iran or doing business with the United States.

The Iranian economy is heavily dependent on imports of refined petroleum. So this legislation -- if it becomes law -- would significantly increase economic pressure on Iran and hopefully persuade the regime to change its current course.

When I introduced H.R. 2194, I said that I did not intend to immediately move it through the legislative process.

I wanted -- and still want -- to give the administration's efforts to engage Iran every possible chance to succeed within a reasonable time frame. I view the bill as a sort of Damocles over the Iranians, a clear hint of what will happen if they do not engage seriously and move rapidly to suspend their uranium enrichment program as required by numerous U.N. Security Council resolutions. If engagement doesn't work, then I am prepared to mark up the bill in committee early this fall.

Thus far Iran has not been responsive -- not on the bilateral front and not even on the multilateral front. Last month Iran cancelled its attendance at the G-8 Ministerial in Trieste, Italy. It has refused to set a date for the next P-5 plus one meeting. It is now late July, close enough to the administration's timetable, and to my own, that Iran should be able to hear the clock ticking.

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

REP. ILEANA ROS-LEHTINEN (R-FL): Thank you so much, Mr. Chairman. Thank you for holding this hearing on Iranian internal, political and economic developments and the implication for U.S. policy. We have an impressive group of witnesses and I look forward to receiving their input.

Mr. Chairman, I had hoped, however, that since this is the first full committee hearing on Iran we've held this year, and in light of your statement during the June 10th floor debate on the foreign relations authorization bill, that the committee would have hearings in July on how multilateral sanctions and the engagement process -- the diplomatic processes work that we would have heard from administration witnesses. And I hope that that will happen.

I respectfully request a follow-up hearing with senior administration officials on this topic.

And as I mentioned in the hearing earlier this month on the proposed U.S.-UAE Civil Nuclear Cooperation Agreement, I am an equal opportunity worrier. Last July, in a hearing before this committee, I criticized the Bush administration's endorsement of an expanded incentive packages -- package under the P-5 plus one stating it granted undue legitimacy and leverage to the regime in Tehran and the only thing we have to show for this approach is that Iran is now two years closer to nuclear capabilities. And my remarks, sadly, are as true today as they were then.

Just in the seven years since Iran's illegal nuclear program was uncovered, the U.S. position has gone from imitating the successful Libya model and calling for a complete, permanent, verifiable dismantlement of Iran's nuclear program, to calling for the cessation of enrichment

and reprocessing, to temporary suspension, to the current U.S. position whereby the U.S. has accepted a so-called Iranian civilian nuclear program, is pursuing direct engagement with the Iranian regime and is now engaged in the proliferation of nuclear cooperation agreements with other countries in the Middle East.

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

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

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

A process that has gone largely unnoticed outside of Iran is the rise of the Iranian Revolutionary Guard Corps, or IRGC. The rule of the mullahs has been significantly replaced by the Iranian Revolutionary Guard Corps, a quasi-military organization which has become the predominant power in that country.

The IRGC controls large swaths of the economy and society. It uses its police and military forces to ensure obedience. It even has a dominant role in Iran's nuclear weapons and ballistic missile capabilities. And it is only in this context that we can fully understand what is now taking place in Iran following the sham elections of June 12th.

In addition to providing us their analysis of Iran's internal developments, I would appreciate it if our witnesses would address how these are affecting the regime's influence outside of the country and how we can capitalize on any political and economic vulnerability.

For decades Iran has spread unrest around the world directly and through its proxies such as Hamas and Hezbollah. Tehran has also facilitated attacks on U.S. forces in Iraq and in Afghanistan. The regime continues to pursue longer-range missiles and seeks to enhance its chemical and biological weapons capabilities. The most salient issue is Iran's nuclear weapons program.

Admiral Mike Mullen, the chairman of the Joint Chiefs of Staff, recently said the clock has continued to tick on Iran's development of nuclear capabilities and our time to stop them is running out. Ahmadinejad has declared many times that negotiations regarding Iran's nuclear programs are dead and he reiterated that position on May 25th of this year, again last month.

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

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

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

REP. BERMAN: Thank you.

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

REP. GARY ACKERMAN (D-NY): Thank you.

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

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

That's what I said a year ago.

As have many others, I've supported the administration's efforts to engage Iran. In my travels through the Middle East and here in Washington I've asked Israelis and numerous Arab leaders if they supported the president's approach to engage Iran. Every single intelligence chief, minister, king, prince, president, head of state responded exactly the same way: "America's engagement is long overdue and absolutely essential."

And then when I asked them if they thought it would work, to a man they said, absolutely not.

I don't think they're wrong either. Recent events in Iran are instructive. When confronted by a challenge, Iran's rulers responded like any other pack of thugs, with regime-sponsored violence and utter disregard for human life. And it should be noted: The concerns and views of the rest of the world matter to them not in the slightest.

In short, with their backs against the wall, Iran's rulers didn't care who or how many got hurt. Unfortunately, these events don't bode well for the administration's effort. Whether or not bilateral discussions are going on right now or not, I don't know, but either way, I frankly have little hope that Iran's rulers will give up their nuclear ambitions in any case.

What we've seen of late strongly suggests that Iran's rulers would gladly break the country in half in order to

preserve their grip on power. And even given what has happened in Iraq and what has not happened in North Korea, I suspect Iran's "thugocracy" sees nuclear arms as their ultimate insurance policy.

All of this is to say that we need to start thinking again not just about sanctions and not just about what constitutes so-called crippling sanctions, but whether there is any level of economic sanctions sufficient to compel a change in Iran's nuclear program.

And as we consider this question vis-a-vis Iran, I would suggest we think seriously about the decade of truly comprehensive sanctions on Iraq, which ultimately failed to resolve concerns about weapons of mass destruction that didn't even exist.

Does anyone think that the Ayatollah Khamenei is a nicer guy than Saddam Hussein?

This is reality: Iran is marching swiftly towards either a bomb or a latent nuclear capability. This development is deeply destabilizing an already deeply unstable region. Successful proliferation by Iran will most likely destroy the NPT and the international norm against nuclear proliferation.

If left unaddressed by the United States and the rest of the international community, as seems to be the case right now, Israel will have to either live under Iranian nuclear sword or act preemptively themselves.

In April of last year I concluded by saying I'm not calling for another war; I want to prevent one. But we may have to go right up to the brink --

REP. BERMAN: The time of --

REP. ACKERMAN: -- to be considered serious and credible --

REP. BERMAN: The time of the gentleman has --

REP. ACKERMAN: -- (inaudible) -- Iranian nuclear weapons unacceptable.

REP. BERMAN: The gentleman from Indiana, the ranking member of the Subcommittee on the Middle East and South Asia, Mr. Burton.

REP. DAN BURTON (R-IN): Mr. Chairman, I --

REP. BERMAN: Recognized for three minutes.

REP. BURTON: What's that?

REP. BERMAN: Recognized for three minutes.

REP. BURTON: Thank you.

I have been one of your strong supporters of 2194, and I can't for the life of me figure out why we're waiting month after month to bring that bill to the floor. It has 260 co-sponsors. Everybody understands the threat that Iran poses. And we're sitting here talking.

They've been developing a nuclear weapons program -- as I understand it from staff -- for almost two decades. They haven't made any illusions about stopping -- or creating any illusions about stopping that nuclear program. They're not going to stop. And unless we start imposing sanctions -- real sanctions -- right now, like your bill would do, give the president the authority -- we're giving him the authority to do it -- let's do it.

I mean, he's tried to reach out to them. He's said that he's willing to talk and all that other stuff. It ain't working, and it's not going to work.

They have, as you just said, 7,000 centrifuges right now. They're developing a nuclear capability. And I know Bebe Netanyahu, and I know that he's a man that doesn't want to have a conflict over there. But I don't believe he or the government of Israel is going to sit back if they have intelligence information and wait for them to complete a nuclear weapons program or a delivery system. We're messing around by waiting and not imposing sanctions today. Every day that we wait we're risking a major conflict over there.

Now, from the United States' standpoint we're getting, what, 30, 35 percent of our energy from that part of the world right now. We don't need a conflagration that might involve nuclear weaponry. I mean it would be horrible.

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

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

But for us to keep -- I mean, I don't know how many hearings I've been to -- I've been on this committee now for 27 years. I don't know how many hearings I've been to where we were talking about how we can work with Iran or how we want to work with Iran. We want to open up a dialogue. It isn't going to work.

And one thing about North Korea: You know they're going to lie. Iran doesn't have to lie. They just keep telling us they're not going to pay any attention to us. And they go right ahead.

We need to impose sanctions now, not later.

REP. BERMAN: We have an excellent -- time of the gentleman has expired.

We have an excellent group of witnesses, some focused on the economic issues, some focused on the political issues in terms of the issues raised up until now and -- in Iran. I'm going to introduce them in the order that they'll be asked to testify.

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

published in 2008. And he has interesting ideas about how to take credit for the sun rising in the East. (Laughter.)

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

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

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

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

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

This is our excellent panel.

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

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

REP. BERMAN: It will be -- all statements will be included in the record.

MR. CLAWSON: Thank you, Mr. Chairman.

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

First, a word about Iran's overall economic situation: There's no country in the Middle East that has suffered more from the oil curse than Iran. Iran had spectacular economic growth while its oil income was modest. Indeed, that oil revenue fueled the growth. But after the 1973 oil price rises, Iran became addicted to oil while the rest of the economy suffered. That was true under the shah and has gotten worse under the Islamic Republic.

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

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

With this windfall Iran's economy has grown at 6 percent a year on average, which is faster than that of the United States or the other industrial countries. However, it's a lot slower than the double-digit growth which should have been possible with this windfall.

And Iranian's have been profoundly unhappy about their country's economic performance because they realize what a missed opportunity the last few years have been. The oil windfall has been misused by President Ahmadinejad to -- he's taken that money and used it to engage in populist

policies designed to secure short-term popularity at the expense of long-term growth.

The budget for grants and subsidies went from \$11 billion when Ahmadinejad took office to \$25 billion this year. An equivalent increase in the United States would be if we spent an extra \$550 billion a year on grants and subsidies. And that's just the explicit subsidies in the budget.

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

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

In short, the last few years have been a particularly difficult time for foreign economic pressure to have much impact on Iran. But the prospect for the next few years is entirely different.

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

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

Then there's the government budget problem. Government spending has been increasing at a brisk pace under Ahmadinejad. At present oil prices, Iran will run a considerable budget deficit. And furthermore, Iran's not in

the position to finance that deficit by borrowing from domestic banks because Ahmadinejad has ordered the banks to lend money for politically favored but uneconomical projects. So the banks are in poor shape.

In sum, the current situation in which Iran's economy is likely to do poorly in the next few years is a perfect moment for the international community to impose additional sanctions on Iran.

No longer can Iran afford to offset the impact of those sanctions with a flood of higher oil income. On the contrary, the sanctions will come at a time of looming economic hardship. And there is excellent reason to expect that Iranian public opinion will blame the economic problems on the hard-liner's isolation of Iran from the international community.

In other words, we are in the position of being able to take credit for that which is going to happen anyway. And in politics, if you can get credit for making the sun rise in the East, take it.

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

Thank you, Mr. Chairman.

REP. BERMAN: Well, thank you very much, Dr. Clawson.

And now Dr. Milani. Good morning.

MR. MILANI: Good morning, Mr. Chairman. Thank you for -- the ranking member, the rest of the committee. Let me begin by saying that the last time I talked to this committee, Congressman Lantos held the gavel, and he embodied for me in his life and vision the best of America as the city on

the hill. I am humbled by his memory. I'd like remind us of his service.

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

I think Iran is in a purgatory today. I think it's in a state of flux, unlike anything it has experienced in its 30 years. I can say with some certainty that I think it is the most serious crisis this regime has faced, the most serious political crisis this regime has faced. The problem is that neither of the two sides that are now facing off seem to have the power to dislodge the other, or control the other.

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

So they, along with Khamenei and Ahmadinejad, -- this triumvirate I think organized already a coup in Iran. I think Iran, for all practical purposes, can no longer be called a republic but Islamic government -- an Islamic government run by this triumvirate. I think the days of Mr. Khamenei as Vali-Fagih -- Vali-Fagih is a theological concept that indicates that the words of one man are the words of the divine and must end all debate, must end all tension within the regime.

And up to now Khamenei's words were in fact allegedly divine. They did in fact end all crises. But now, for 20 days he has gone out of his way to try to make this election stick and he has not succeeded. Last Friday's prayer by Rafsanjani was a direct challenge to Mr. Khamenei. It was a direct challenge to everything he has said since the election.

So what will happen in the next few weeks will tell us who will actually rule Iran in the next few years. I am not at

all convinced that the triumvirate's coup attempt has succeeded. They have the upper hand because they have the military, because they have the goons, because they have the ability to pay this machinery of oppression. But look at the tape of Ahmadinejad's last visit to the city of Mashad. Look at the few number of people who they succeed to bring in the city of Mashad that was supposed to be one of their strongholds, and compare that to the number of people -- the millions who came out for Rafsanjani.

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

There are three major contradictions in Iran today. I think we need to be aware of them.

The most important one is between the people and the regime. The people have shown now clearly, categorically that they do not want this regime. Millions came into the streets, took life and limb in hand and declared death to the dictator. There is no clear alternative of where they want to take the regime, except that they want it to be more democratic. And their contradiction with this regime is fundamental in structure.

This regime cannot solve the problem of the Iranian society. It cannot solve it because a million people join the labor force every year, unemployment is double digit. For the youth, that is three-fifths of the society. Unemployment is estimated to be between 25 to 40 percent. A disproportionate number of the educated entering the labor force are college-educated women.

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

The economy is a major problem for the regime. As Professor Clawson suggested, Ahmadinejad had his hand on \$200 billion. Much of it is unaccounted for. Thirty-six billion dollars of it is simply unaccounted for. Where the rest has gone,

there is very little clarity about this. We know he had to spread some of it in the smaller cities and the countryside, building roads, but that comes nowhere close to the total amount that he has squandered.

We know he has given away \$5 billion last year alone to the regime proxies around the world. This is a figure that was suggested inside Iran from reliable sources with figures -- how much to Syria, how much to Hezbollah, how much to Hamas, how much to Latin America. As we speak, Israel's foreign minister is traveling to Latin America to counter Iran's influence, not in the Middle East, but in Latin America. All of this was possible because of the oil windfall, because of the oil purse.

I think the tide is now beginning to turn for the regime. And I think the people, because of this contradiction, are irreconcilably opposed to the status quo.

The second contradiction in, again, it's depth and severity unlike anything the regime has ever experienced, is between elements of the regime itself -- Karrubi, Rafsanjani, Mousavi, Khatami, to name only the four. These have been the head of one of the three branches of Iranian government for a total of 34 years -- longer than the regime has existed. Now, they are in clear opposition to Khamenei. Now they're part of a coalition for reform.

They are not all of the same opinion, but they're all of the opinion the -- (inaudible) -- Khamenei has overreached and that the election must go. That's an incredible moment of crisis.

There is a third --

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

MR. MILANI: Okay. In terms of -- should I say something about --

REP. BERMAN: Just finish it up, yeah.

MR. MILANI: Okay, I think on the question of engagement, my suggestion is that there must be engagement, but we must be

very careful when this engagement begins. We must wait for the dust to settle in Iran to realize who wins this. Before we engage with someone, we need to know who that someone is.

But engagement -- I think there is, as you suggest, no other alternative, but engagement is the first, next step.

REP. BERMAN: Dr. Rubin.

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

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

Secretary Clinton is correct to note the challenges the Islamic Republic poses but is incorrect to blame her predecessors rather than the Islamic Republic itself for the failure of diplomacy. It is a myth that the United States has not engaged Iran. Every administration since Jimmy Carter's has engaged the Islamic Republic. In each case it was not lack of goodwill on Washington's part but, rather, the regime leaders' disinterest which led to failure.

Ironically, the most hard-line U.S. administration toward Iran was Bill Clinton's, at least in its early years. National Security Council official Martin Indyk made dual containment the central pillar of U.S. strategy.

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

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

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

Iranian President Mohammed Khatami's election, however, led the Clinton administration to renew its efforts at dialogue. Clinton jumped at the chance to bring Iran in from the cold. He ordered withdrawn and destroyed the FBI's report detailing the Islamic Revolutionary Guard Corps' involvement in the Khobar Towers bombing. Within weeks, Secretary of State Albright sent a letter to Khatami expressing Washington's desire for government-to-government dialogue.

The initiative floundered after the Iranian government refused to move forward with any dialogue so long as U.S. sanctions and trade bans remained in place. The Clinton administration -- while former National Security Adviser Scowcroft criticized the Clinton administration's obstinacy, Clinton's caution was prudent.

Years later, Abdollah Ramezanzadeh, the Khatami government spokesman, acknowledged Tehran's lack of sincerity, explaining, "We had one overt policy, which was one of negotiation and confidence building, and a covert policy, which was continuation of the activities."

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

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

Ultimately Albright's unilateral concessions backfired. Foreign Minister Kamal Kharrazi responded to Albright's, quote, "confessions" of past U.S. malfeasance by demanding

reparations. On July 16, 2000, the Iranian government tested a Shihab-3 missile, a deliberate attempt to undercut accelerating Arab-Israeli peace talks.

Supreme Leader Khamenei poured cold water on any optimism when in a July 27, 2000 statement, he argued that any negotiations, let alone rapprochement with Washington, would be, quote, "an insult and treason to the Iranian people," a position which he retains.

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

Some say Bush missed a grand bargain opportunity in 2003, but as even pro-engagement officials like former Deputy Secretary of State Richard Armitage acknowledge, this is more a myth that resulted from wrongly ascribing Iranian authorship to an attention-seeking Swiss diplomat's personal initiative.

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

Beginning in 1992 the European Union undertook a policy of critical dialogue. Critical engagement did not lead to any noticeable improvement in Iran's human rights conditions, which indeed worsened during the course of the dialogue.

Persecution of religious minorities like Baha'is increased, and censorship remains heavy-handed.

Between 1992 and 1996, the Iranian government refused to allow a U.N. special representative on human rights in Iran to visit the country. Between 1995 and 1996 -- the height of the dialogue -- Iranian use of the death penalty doubled.

Engagement has also failed to alter Iranian support for terrorism or proliferation activities, issues which more directly impact U.S. national security.

The 2007 National Intelligence Estimate indicated that the Islamic Republic maintained a covert military nuclear program until 2003 -- that is, throughout Khatami's Dialogue of Civilizations.

IAEA reports from the period suggest a deliberate counter-effort that spanned many years to conceal material, facilities and activities that were required to have been declared under the safeguard agreements.

Earlier this summer, Hassan Rowhani, Iran's former nuclear negotiator, acknowledged to an Iranian interviewer that the Iranian leadership's previous suspension of uranium enrichment at the behest of European negotiators was more tactical than a true concession.

"We did not accept suspension in construction of centrifuges and continued the effort," he said. "We needed a greater number."

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

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

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

First, it takes two to tango. What Carter, Bush the elder -- Reagan, Bush the elder, Clinton and Bush the younger learned but their domestic critics have not is that the impediment to engagement lies not in Washington but in Tehran.

When Undersecretary of State William Burns sat down with his Iranian counterpart in Geneva in July 2008, Mohammad Ja'afi Assadi, commander of Iranian Republican Guards Corps

ground forces, quipped that Washington's desperation showed that, quote, "America has no other choice but to leave the Middle East region beaten and humiliated."

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

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

Arab states and Iran's other neighbors --

REP. BERMAN: Dr. Rubin, we do have to --

MR. RUBIN: Okay.

Arab states and Iran's other neighbors --

REP. BERMAN: That's it.

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

REP. BERMAN: Thank you very much.

Dr. Maloney.

MS. MALONEY: Thank you and good morning.

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

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

The Islamic Republic has entered a new and ultimately unpredictable phase of its perpetually gripping history. Iran and the regime is now forced to contend with an almost unprecedented array of internal challenges that are both complex and interconnected. The outrage over the electoral manipulation has spawned a genuine if still embryonic opposition movement -- perhaps for the first time since the mid 1980s in Iran -- that boasts at least a symbolic leadership and a compelling popular mandate.

The other profound consequence for the Iranian regime, as some of the previous panelists have suggested, is the cleavage within the political elite.

There's always been factional bickering within Iran, but we've never seen anything at this level. And we've never seen the direct assault on the authority of the office of the supreme leader. In doing so, the crucial component of Iran's elite has begun to separate itself from the regime to promote the opposing agenda of a nascent mass-based movement. This is highly significant.

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

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

There are at least two alternative scenarios that would seem more encouraging in the short term. The first would entail some negotiation of a modus vivendi among Iran's hardliners and the quartet of moderate leaders that others have referred to. This could look anything like a super-empowered reform movement in which you saw a kinder,

gentler Islamic Republic or a complete capitulation by the reformist leaders to become a sort of loyalist opposition along the lines of the Iranian Freedom Movement, which existed for well over a decade after the Islamic Revolution.

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

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

Ironically, of course, Ahmadinejad was elected on the basis of a campaign back in 2005 that focused on the economic grievances of Iranians. And yet he governed on the basis of ideology. And as a result, the president himself bears much direct responsibility for the current state of Iran's economic affairs. His heavy-handed interference with monetary policy and freewheeling spending contributed to spiraling inflation rates.

His provocative foreign policy and reprehensible rhetoric has done more to dissuade potential investors than any U.S. or United Nations sanctions. His disdain for the technocracy and his somewhat quixotic economic notions has undermined much of the progress that was made in previous years to liberalize the Iranian economy and address its underlying distortions. And he spent like a drunken sailor, as Dr. Clawson has suggested.

The senselessness of his policies provoked a firestorm of criticism through his last several years in office.

Notably, the critiques were not limited just to his factional adversaries; much of the disquiet voiced about the economic policies of the Ahmadinejad regime has emerged

from sources ideologically inclined to support the president and his patron the supreme leader, including traditional conservatives with long-standing links to the bazaar and the centers of clerical learning.

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

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

The events since June 12th have changed Iran in profound and irreversible fashion, and it would be fruitless, even counterproductive, to proceed as though this weren't the case. The United States must adjust both its assumptions about Iran and its approach to dealing with our concerns about Iranian policies.

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

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

Still, the Obama administration's interest in engagement was never predicated on the palatability of the Iranian leadership but on the urgency of the world's concerns and

the less promising prospects of the array of policy alternatives.

How do we draw a thuggish theocracy to the bargaining table? The hurdles are not insurmountable; the context for the successful 1980 to 1981 diplomacy that led to the release of American hostages was at least as challenging as that of today.

At that time you also had a situation in which most of the moderates who have been forced out of the Iranian government and the people who we are sitting across the bargaining table from were a particularly hard-line group of people whose authority, credibility and ultimate goals were very much obscure. A successful agreement entailed months of work and many false starts, but a variety of tools -- including secret diplomacy, the involvement of a third-party mediator as a guarantor for the eventual agreement -- helped facilitate an outcome.

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

This is the proper role for coordination with U.S. allies on an intensification of sanctions should engagement fail. And here we should focus our efforts on Beijing.

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

Finally, to conclude, let me just say that we're facing a situation of intense fluidity in Iran. And we should always be applying a test of the island of stability sort of rhetoric that was used by the Carter administration in the run-up to the Iranian Revolution.

We don't know simply whom we're going to be dealing with in a years' time in Iran.

Thank you.

REP. BERMAN: Thank you.

Karim.

MR. SADJADPOUR: Thank you, Mr. Chairman. It's an honor to be here with you today.

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

I'd like to make a few points about the domestic implications for Iran and also a few points about the implications for U.S. foreign policy.

In my mind, there have been two important casualties of the last six weeks. The first is the moniker of the Islamic Republic of Iran.

Iran has ceded any claims, any pretensions of being a republic. In my opinion, Iran has now become a cartel of hard-line Revolutionary Guardsmen and hard-line clergymen who have made, as Abbas said, tremendous amounts of money the last few years and are unwilling to cede power. They describe themselves as so-called principle-ists, but in reality their real principles are power and greed.

The other important casualty from the last five weeks has been the loss of legitimacy of the supreme leader, Ayatollah Khamenei.

For the last two decades he had carefully cultivated this image of a magnanimous godfather who stays above the fray. But those days of Khamenei wielding power without accountability are now over. He's tied himself firmly with the fate of President Ahmadinejad. And it is unprecedented to have hundreds of thousands of people taking to the

streets now chanting "marg bar Khamenei"-- "death to Khamenei."

A word about the population: According to Mohammed Bagher Ghalibaf, who was the mayor of Tehran, himself a former senior Revolutionary Guard commander, 3 million people took to the streets in Tehran at the height of the protest.

And I can tell you, from talking to people throughout Iran and just viewing the images, that these demonstrators have truly encompassed an incredible wide swath of Iranian society. They've transcended age, religiosity, gender, geographic location.

The scale of the demonstrations has certainly decreased the last few weeks, because the regime does repression very well. And they are able to prevent large amounts of people from congregating in one area. But the nightly protest chants of "Allahu Akbar" -- "God is great" -- reminiscent of the 1979 revolution in order to keep the momentum going have continued unabated.

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

A word, however, about the costs of this repression for the regime -- both the political costs and the financial costs: As Abbas mentioned, we've seen unprecedented fissures in Iran. It would be unheard of that a pillar of the 1979 revolution, Hashemi Rafsanjani, has come out now in the opposition, implicitly questioning the legitimacy of the supreme leader.

Former President Mohammed Khatami who received 24 million votes not long ago has called for a referendum.

So truly at the level of the political elite there's unprecedented fissures. I think what we should focus on and what would truly be devastating for Khamenei and Ahmadinejad would be fissures among the regime security forces, namely the Revolutionary Guards.

So far we haven't seen that, but the Revolutionary Guard's a very large entity -- 120,000 men. And whereas the senior commanders are hand-picked by Khamenei and they're going to likely remain loyal to him, the rank and file both empirically and anecdotally we've seen are much more representative of Iranian society at large.

Also a word about the financial costs of this repression: It costs a lot of money to have a state of martial law, to have overflowing prisons, to have communication blackouts and to prevent Iranians from viewing satellite broadcasts from abroad.

It's estimated that for the regime to jam the satellite broadcasts from Voice of America Persian Language Service and BBC Persian, it costs them several thousand dollars per minute. Multiply that over a five-week period, and we see that the regime is truly bleeding tens of millions of dollars just to retain this level of repression.

Now, a brief word on the implications for U.S. policy: I would first say that I believe President Obama's overtures have played a role in accentuating the deep internal divisions within Iran. A couple months ago I encountered a fairly senior conservative, pragmatic official -- Iranian official in the Middle East -- who remarked to me that there's a lot of pressure now on hard-liners in Tehran to justify their enmity toward the United States.

What he said to me, to paraphrase, is that if Iran can't make nice with Barack Hussein Obama, who's preaching mutual respect on a weekly basis and sending us Nowruz greetings, it's pretty obvious the problem lies in Tehran, not Washington. And I think the cleavages we've seen in the last six weeks have had -- the Obama administration's initial overtures I think had played a role in that.

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

So I don't say renounce engagement, but let's hold off until the dust settles.

I believe --

REP. BERMAN: (Off mike.)

MR. SADJADPOUR: -- yeah, yeah, okay.

Just one last point and that is that we shouldn't underestimate the magnitude of this moment. Iran is the only country in the Middle East in which if you hear about popular protests it doesn't give you indigestion. You hear about popular protests in Saudi Arabia, Egypt and Jordan -- it's not a hopeful sign.

But in Iran certainly, as we've seen, these people are agitating for greater political voice, greater economic freedoms, greater social freedoms. And they may not achieve this within the next weeks or months or even years, but we should not appreciate (sic) the magnitude of what's transpired the last few weeks. And we should certainly try to pursue policies which don't deter this movement and do not alter its trajectory.

REP. BERMAN: Thank you very much.

And now our final witness, Professor Kittrie.

MR. KITTRIE: Chairman Berman, Ranking Member Ros-Lehtinen, distinguished members of the committee, thank you for the opportunity to speak with you today.

I've been asked to focus on how to use sanctions to leverage the economic vulnerability to which Dr. Clawson and others referred.

Disappointingly, the Obama administration's outstretched hand has thus far been met with a clenched Iranian fist. Until now, that outstretched American hand has been accompanied by the maintenance of existing sanctions.

Congressional sanctions bills have, as the chair said, served as a kind of sword of Damocles hanging high over the head of the Iranian regime. Yet, Iran's nuclear program has raced forward. And Iran's leadership has continued to insist there are no incentives that could induce it to halt

or even meaningfully limit its nuclear program. It's become increasingly clear that if the Iranian regime is going to be peacefully persuaded to halt its illegal nuclear program, we will first need to change its cost-benefit calculus.

In light of this and the regime's brutal measures to crush the post-election protests, it's time both to increase the weight of the sword of Damocles hanging over the Iranian regime's head and to begin lowering the sword.

In a moment I'll suggest some ways in which the sanctions threat to Iran can be increased and made more imminent.

But first, a threshold question: Can strong sanctions really contribute to stopping an illicit nuclear weapons program? The answer is yes. For example, strong U.N. Security Council sanctions were a pivotal factor in inducing Libya's government both to allow British and American government experts to enter Libya and completely dismantle its WMD infrastructure by April 2004.

As the ranking member said, that should be our goal with regard to Iran.

In addition, it was discovered in the wake of the U.S. occupation of Iraq, too late unfortunately, that strong U.N. Security Council sanctions had helped destroy Iraq's nuclear weapons program and prevent Saddam Hussein from restarting it between the Gulf War in '91 and the coalition occupation of Iraq in 2003.

However, the sanctions imposed on Iran by the international community thus far are much weaker than the sanctions that helped stop the Libyan and Iraqi nuclear weapons program.

The Security Council's Iran sanctions are still far too weak to, a, persuade Iran's leadership that the benefits of proceeding with its nuclear program are outweighed by the sanctions costs of proceeding with the program, to, b, meaningfully contain Iran's nuclear program or, c, deter other countries that are watching from someday following Iran's lead.

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

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

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

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

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

There are a number of provisions in other Iran sanctions bills that I urge be passed alongside IRPSA. I list them all in my written statement.

These additional provisions include -- and I'll highlight just a few -- first, provisions that would cut off most remaining direct U.S. trade with Iran. According to recent reports by the Associated Press and other sources, the U.S. had \$685 million in exports to Iran in 2008. That is an eightyfold increase over the \$8 million in U.S. exports to Iran in 2001 -- an eightyfold increase.

It will be harder for the United States to convince Europe to put stronger sanctions on Iran if the U.S. does not itself stop trading directly with Iran.

President Clinton had in 1995 banned essentially all U.S. trade with Iran. However, the U.S. had in 1999 and 2000, in a gesture to the relatively moderate Khatami, eased the trade ban.

The U.S. should re-close these exceptions to direct trade with Iran.

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

In conclusion, the U.S.'s considerable leverage over Iran's suppliers of refined petroleum and other strategic goods may mean that aggressive unilateral sanctions that have a dispositive impact on Iran's economy and thus its nuclear program.

In the face of persistent Russian, Chinese and European reluctance to impose strong sanctions on Iran, creative and aggressive U.S. unilateral sanctions may turn out to be our last, best hope for peacefully convincing Iran that the cost of its nuclear program is too high. Thank you.

(END OF TODAY'S COVERAGE. COVERAGE WILL RESUME TOMORROW.)