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CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE UNITED STATES

HEARING

BEFORE THE

SELECT COMMITTEE ON INTELLIGENCE

OF THE

UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

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TUESDAY, JANUARY 31, 2012

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CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE UNITED STATES

TUESDAY, JANUARY 31, 2012

U.S. SENATE,
SELECT COMMITTEE ON INTELLIGENCE,
Washington, DC.

The Committee met, pursuant to notice, at 10:05 a.m., in Room SH–216, Hart Senate Office Building, the Honorable Dianne Feinstein (Chairman of the Committee) presiding.

Committee Members Present: Senators Feinstein, Chambliss, Wyden, Udall of Colorado, Snowe, Rockefeller, Conrad, Mikulski, Coats, Risch, Blunt, Warner, McCain, Nelson, and Rubio.

OPENING STATEMENT OF HON. DIANNE FEINSTEIN, CHAIRMAN, A U.S. SENATOR FROM CALIFORNIA

Chairman FEINSTEIN. The Senate Select Committee on Intelligence meets today in open session for our annual Worldwide Threat Hearing.

This hearing provides the Intelligence Community with an opportunity to present to the nation its views of the threats and challenges we face, and for the Committee to ask questions of our intelligence leaders in public. Today is also an opportunity to take stock of what has happened in the last year and what we can expect for 2012.

Before looking ahead, I want to congratulate the leaders of the Intelligence Community before us today, and the tens of thousands of civilian and military intelligence professionals they represent. Through their efforts, 2011 was a year of numerous major intelligence successes, including, first and foremost, the operation that located and killed Osama bin Laden.

This past year also saw the removal of top terrorist leaders, plotters and recruiters, including Anwar al-Awlaki, in Yemen; al-Qa'ida's linchpin in Pakistan, Atiyah Abd al-Rahman; and numerous others, resulting in the disruption of specific terrorist plots, and casting into disarray al-Qa'ida's senior leadership.

Closer to home, since our hearing last year, there were at least twenty individuals arrested in the United States on terrorism-related charges in seventeen different investigations, which stopped them from carrying out or assisting in attacks on the Homeland. In the interest of time, I will put a list that describes each of these arrests in the record.

[The List of Counterterrorism Arrests in the U.S. in 2011 and 2012 follows:]

Counterterrorism Arrests in the U.S. in 2011 and 2012

(Information provided by the FBI and the Congressional Research Service)

(1) **Jamshid Muhtorov—Plot to Fight on Behalf of Islamic Jihad Union (IJU)—January 2012**

According to DOJ, Jamshid Muhtorov, a refugee from Uzbekistan living in Aurora, Colorado prior to his arrest on January 21, 2012, "planned to travel overseas where he intended to fight on behalf of the Islamic Jihad Union (IJU), a designated foreign terrorist organization."[1] Muhtorov allegedly communicated with a website administrator linked to the IJU, and this brought him to the FBI's attention. According to DOJ, Muhtorov professed his allegiance to IJU and noted that he was "ready for any task, even with the risk of dying."[2]

(2) **Sami Osmakac—Plot to Bomb Locations in Tampa, Florida—January 2012**

On January 7, 2012, the FBI arrested Sami Osmakac, a naturalized U.S. citizen born in the former Yugoslavia (Kosovo) on one count of attempted use of a weapon of mass destruction. The FBI used a sting operation to apprehend Osmakac who was 25 years old at the time of his arrest. According to FBI investigators, in September 2011, an FBI source reported that Osmakac and another person had asked for Al Qaeda flags at the source's business. The source continued to interact with Osmakac and report to the Bureau about his activities. Osmakac allegedly expressed interest in obtaining firearms and explosives for attacks he was planning in the Tampa area, and the source introduced him to an FBI undercover employee reputed to have access to such materials. The undercover employee supplied Osmakac with hand grenades, an assault rifle, a pistol, a car bomb, and an explosive belt. Osmakac was unaware that the items actually did not work. In the course of his plotting Osmakac purportedly discussed targets such as "night clubs in the Ybor City area of Tampa, the Operations Center of the Hillsborough County Sheriff's Office in Ybor City, and a business in the South Tampa. . ."[3] Muslims in Tampa reportedly aided the FBI in its investigation. Osmakac purportedly

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1 DOJ Press Release, "Colorado Man Arrested for Providing Material Support to a Designated Foreign Terrorist Organization," January 23, 2011, http://www.fbi.gov/denver/press-releases/2012/colorado-man-arrested-for-providing-material-support-to-a-designated-foreign-terrorist-organization?utm_campaign=email-Immediate&utm_medium=email&utm_source=denver-press-releases&utm_content=64913.

2 *United States v. Jamshid Muhtorov,* Criminal Complaint, January 19, 2012, United States District Court for the District of Colorado.

3 DOJ Press Release, "Florida Resident Charged With Plotting To Bomb Locations In Tampa," January 9, 2012, http://www.justice.gov/usao/flm/press/2012/jan/20120109_Osmakac.html. Hereinafter: DOJ, "Florida Resident."

exhibited extremist views prompting at least one local Muslim to tell authorities about him.

(3) **Craig Baxam—Attempt to Join Al al-Shabaab—January 2012**
On January 6, 2012, the FBI arrested Craig Baxam as he returned to the United States from travels in Africa, where he attempted to join al-Shabaab. Baxam was 24 at the time of his arrest and a resident of Laurel, Maryland. DOJ alleges that in December 2011 he traveled from the United States to Kenya, intending to eventually transit into Somalia via bus routes and taxis. Kenyan police reportedly arrested Baxam before he could leave the country to join al-Shabaab. According to court documents, between 2007 and July 2011, Baxam, a U.S. citizen, served as a soldier in the U.S. Army. He converted to Islam shortly before leaving the service. Baxam hoped to join al-Shabaab to live under and defend its moral strictures.

(4) **Mansour Arbabsiar—Plot to Assassinate the Saudi Ambassador to the United States—September 2011**
Mansour Arbabsiar, 56, was a naturalized American citizen who lived in Corpus Christi, Texas. Mr. Arbabsiar approached a DEA informant, who he believed was a member of Los Zetas, to hire the cartel to carry out a terrorist attack against the Saudi ambassador at a restaurant in Washington. Mr. Arbabsiar had many connections to Iran's military and the Quds Force.

(5) **Jose Pimentel—Plot to Bomb New York City Targets and Troops Returning from Combat Overseas—November 2011**
On November 19, 2011, New York City police arrested naturalized U.S. citizen, convert to Islam, and New York state resident, Jose Pimentel on terrorism charges. According to New York City Police Commissioner Raymond W. Kelly, Pimentel purportedly discussed killing U.S. military personnel returning home from Iraq and Afghanistan, in conjunction with bombing post offices in and around Washington Heights and police cars in New York City, as well as a police station in Bayonne, N.J. The alleged would-be bomber was building explosive devices when he was arrested after two years of surveillance by the New York City Police Department (NYPD). Pimentel reportedly discussed his plans with an individual he did not know was an NYPD criminal informant. Pimentel sympathized with Al Qaeda and drew inspiration from now-deceased radical cleric Anwar al-Awlaki. The alleged would-be bomber purportedly tried but failed to correspond with Awlaki via e-mail, and the cleric's death may have sped up Pimentel's plotting. According to the criminal complaint filed in the case, the NYPD tracked Pimentel's internet activity. Commissioner Kelly publicly noted that Pimentel had posted online pro-Al Qaeda material as well as an article detailing how to make a bomb from *Inspire*

Magazine. Working in the apartment of an NYPD criminal informant, Pimentel supposedly followed *Inspire's* bomb making instructions, scraping match heads, collecting the incendiary material, as well as drilling holes in three pipes, among other steps. A native of the Dominican Republic, Pimentel lived in Manhattan most of his life and resided in Schenectady, NY for five years.

(6) **Rezwan Ferdaus—Plot to Attack U.S. Capitol and Pentagon— September 2011**

On September 28, Rezwan Ferdaus, a U.S. citizen from Ashland, MA, was arrested on terrorism charges. He allegedly plotted to attack the Pentagon and the U.S. Capitol with explosives-laden remote-controlled airplanes. According to DOJ, he also planned a ground assault in conjunction with his aerial attack, intending to use firearms and to involve six conspirators in this phase of his plot. Ferdaus also purportedly attempted to provide Al Qaeda with modified cell phones he believed would be used as detonators for improvised explosive devices intended to harm U.S. soldiers abroad. As described by DOJ, FBI undercover employees acting as members of Al Qaeda supplied Ferdaus with money, fake explosives for the airplanes, firearms, and hand grenades. In turn, (among other things) Ferdaus provided the cell phone detonators to these phony Al Qaeda recruiters as well as a training video on how to construct them. Ferdaus supposedly began plotting in 2010. In January 2011, he discussed his plans with an FBI informant. In May 2011, he visited the Washington, DC, area to conduct surveillance of his targets and view the site from which he intended to launch his remote-controlled airplanes. According to the FBI, Ferdaus believed that one of his airplanes could collapse the Capitol dome.

(7) **Agron Hasbajrami—Plot to Fight in Pakistan—September 2011**

On September 6, 2011, Agron Hasbajrami was arrested at John F. Kennedy International Airport in New York City as he tried to board a flight to Turkey. Hasbajrami, a legal permanent resident in the United States and an Albanian citizen, allegedly planned to join a jihadist fighting group in the Federally Administered Tribal Areas of Pakistan. He also purportedly sent more than $1,000 to Pakistan to support the efforts of a militant with whom he communicated.

(8) **Naser Abdo—Plot to Attack Targets Near Fort Hood—July 2011**

On July 27, 2011, U.S. Army Private Naser Abdo was arrested near Fort Hood in Texas for allegedly plotting a shooting spree and bombing in the area—near the same place where Army Major Nidal Hasan reportedly killed 13 individuals in 2009. Abdo, described in the media as a Muslim soldier in the 101st Airborne Division at Fort Campbell, KY, was supposedly absent without leave from the

Army after applying for conscientious objector status. A November 2011 superseding indictment charged Abdo with one count of attempted use of a weapon of mass destruction, one count of attempted murder of officers or employees of the United States, two counts of possession of a firearm in furtherance of a federal crime of violence, and two counts of possession of a destructive device in furtherance of a federal crime of violence.

Abdo allegedly purchased gunpowder, shotgun ammunition, and a magazine for a semi-automatic pistol at a gun store near Fort Hood. An employee at the gun store supposedly brought Abdo to the attention of law enforcement officers. Federal officials have noted that Abdo also possessed a .40 caliber handgun, bomb making materials, and an article on how to construct an explosive device, among other items. The article was from *Inspire,* an English-language magazine produced by Al Qaeda in the Arabian Peninsula.

(9) **Ulugbek Kodirov— Plot to Assassinate President Obama—July 2011**
A 21-year-old man from Uzbekistan living in Alabama sought assistance to kill President Obama either by shooting him or using explosives. The affidavit said that the source whom Kodirv contacted for help told authorities that Kodirov supported Islamic extremists and regularly viewed jihadist websites.

(10) **Emerson Begolly—Plot to Encourage Jihadist Acts in the United States—July 2011**
On July 14, 2011, Emerson Begolly, a U.S. citizen from New Bethlehem, PA, was indicted for allegedly attempting to encourage jihadists to commit acts of terrorism within the United States and distributing information related to explosives online. In August 2011, he pled guilty to "soliciting others to engage in acts of terrorism within the United States and to using a firearm during and in relation to an assault on FBI agents."[4] According to DOJ, Begolly posted "links to a 101-page document that contain[ed] information on how to set up a laboratory, conduct basic chemistry, and manufacture explosives."[5]

(11) **Mohammad Hassan Khalid—Provided Material Support to Terrorists—July 2011**
Mohammad Hassan Khalid, an 18 year-old Pakistani citizen and Maryland resident, is accused of using the Internet to recruit people and solicit funds for a

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4 DOJ Press Release, "Pennsylvania Man Pleads Guilty to Terrorist Solicitation and Firearms Offense," August 9, 2011, http://www.fbi.gov/washingtondc/press-releases/2011/pennsylvania-man-pleads-guilty-to-terrorist-solicitationand-firearms-offense.
5 Ibid.

violent jihadist war in South Asia and Europe. He allegedly acted under the direction of Colleen Renee LaRose (AKA "Jihad Jane"), an American citizen charged with terrorism-related crimes, including conspiracy to commit murder and providing material support to terrorists.

(12 and 13) **Abu Khalid Abdul-Latif and Walli Mujahidh—Plot to Attack Seattle Military Processing Center—June 2011**

On June 22, 2011, Abu Khalid Abdul-Latif and Walli Mujahidh, were arrested on terrorism and firearms charges for plotting to attack a Seattle military processing center. An FBI sting operation apprehended the two as they took possession of machine guns they had purchased for the plot. The firearms had been rendered inert as part of the sting operation. Assistant Attorney General for National Security Todd Hinnen described the plot as, "driven by a violent, extreme ideology."[6] While the two reportedly had not worked out all of the details of their plot, they allegedly were frustrated by "American war policies" and hoped for an attack that would garner wide attention.

(14) **Yonathan Melaku—Plot to Shoot Targets in Washington, DC, Area—June 2011**

On June 23, 2011, DOJ announced that Yonathan Melaku, an Ethiopian native living in Alexandria, VA, had been charged with destruction of property and firearm violations. These charges stemmed from five shootings at military installations in Northern Virginia between October and November 2010. No one was harmed in the shootings. It is unclear to what extent Melaku, a Marine Corps reservist, was driven by jihadist motivations; however, investigators linked Melaku to a spiral notebook with numerous Arabic statements referencing the Taliban, Al Qaeda, Osama bin Laden, "The Path to Jihad," as well as a list of several other individuals associated with foreign terrorist organizations. Law enforcement officials also found a video when they searched Melaku's bedroom. It reportedly depicted "Melaku in an automobile driving near what appears to be the U.S. Marine Corps Heritage Museum and repeatedly firing a handgun out the passenger-side window." In the video, he allegedly states, "that's my target. That's the military building. It's going to be attacked," and then he shouts, "Allah Akbar."

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6 DOJ Press Release, "Two Men Charged in Plot to Attack Seattle Military Processing Center," June 23, 2011, http://seattle.fbi.gov/dojpressrel/pressrel11/se062311.htm.

(15 and 16) **Waad Ramadan Alwan and Mohanad Shareef Hammadi—Material Support to Al Qaeda in Iraq—May 2011**
Alwan and Hammadi were arrested on May 25, 2011 in Kentucky on charges to commit conspiracy to kill U.S. national abroad and provide material support, including weapons, to Al Qaeda in Iraq among other charges. Hammadi was charged with conspiracy to transfer, possess, and export Stinger missiles.

(17 and 18) **Ahmed Ferhani and Mohamed Mamdouh—Plot to Attack New York City Targets—May 2011**
On May 12, 2011, Ahmed Ferhani (an Algerian native living in Queens, NY) and Mohamed Mamdouh (a naturalized U.S. citizen from Morocco) were arrested for plotting to blow up a synagogue as well as churches in New York City. However, the duo had not chosen a specific target. New York City officials alleged that Ferhani was driven by a hatred of Jews and a belief that Muslims are mistreated the world over. He and Mamdouh allegedly had purchased firearms and a hand grenade from an undercover detective posing as a gun dealer.

(19) **Kevin William Harpham—Attempt to Use WMD—March 2011**
On March 9, 2011, Kevin Harpham was arrested for placing an explosive device alongside a planned Martin Luther King Jr. Day Unity March. Harpham admitted that he was a white supremacist and white separatist.

(20) **Khalid Ali-M Aldawsari—Plot to Bomb U.S. Targets—February 2011**
On February 23, 2011, FBI agents arrested Khalid Ali-M Aldawsari, a citizen of Saudi Arabia and resident of Lubbock, TX. He was charged with attempted use of a weapon of mass destruction. He also allegedly plotted to purchase material to make an improvised explosive device and had researched potential U.S. targets. A chemical supplier provided information to the FBI about a suspicious attempted purchase by Aldawsari. Prosecutors have also stated that Aldawsari documented his interest in violent jihad and martyrdom in blog postings and a personal journal. Allegedly among the targets Aldawsari researched were the names and home addresses of three American citizens who had previously served in the U.S. military and had been stationed for a time at Abu Ghraib prison in Iraq.

Chairman FEINSTEIN. Arrests like these are the product of coordination between the FBI, other intelligence agencies, the Department of Homeland Security, and state and local law enforcement units throughout the country.

Also in 2011, the Drug Enforcement Administration, the DEA; the Federal Bureau of Investigation, the FBI; the Central Intelligence Agency, the CIA; and others combined to identify and thwart an Iranian plot to kill the Saudi ambassador to the United States, a plot so unusual and amateurish that many initially doubted that Iran was responsible. Well, let me state for the record, I have no such doubts.

Finally, the Intelligence Community supported countless United States national security and foreign policy actions, including the war in Afghanistan, the drawdown in Iraq, the NATO-led mission in Libya that removed dictator Muammar Gaddafi, the implementation of sanctions on Iran over its nuclear program, the interdictions of weapons of mass destruction shipments, and many, many others. Despite the successes, the threats to our nation remain serious, and in many ways, more difficult to understand and even address than in years past.

The Intelligence Community's statement for the record, which is posted on the Committee's website and will be summarized by Director Clapper, describes these threats at length. Let me address just a few points.

Terrorism: we are all familiar with the continuing threats posed by al-Qa'ida affiliates in Yemen and Somalia, AQAP and al-Shabaab, as well as that from al-Qa'ida in Iraq, AQI, all three of which aspired to conduct attacks outside of their borders.

I want to mention, with special emphasis, the threat posed by the al-Qa'ida affiliate in North Africa, which calls itself al-Qa'ida in the Lands of the Islamic Maghreb, or AQIM. For the past few years, AQIM has been almost an afterthought when discussing the terrorist threat. This may be about to change. Recent public records point out that AQIM, which has traditionally operated in parts of Algeria and Mali, is well positioned to exploit instability and pockets of extremism in Libya and Nigeria, and to create new safe havens.

The reports also raised concerns about the tens of millions of dollars AQIM has received from ransom payments for hostages and other illicit activities.

I believe the Intelligence Community needs to move now to be prepared to address this possible growing threat.

Then there is Iran and North Korea. While the overall terrorist threat may be down, the threat from the proliferation of weapons of mass destruction from Iran and North Korea is growing. On January 9th, Iran announced that it started enriching uranium at its Fordo plant near the city of Qom. According to IAEA reports, Iran is enriching uranium to 20 percent, both there and at Natanz. IAEA inspectors arrived in Iran over the weekend, and I believe they must—and should—have complete access to all Iranian nuclear facilities, and I asked that they make their findings public on a regular basis so the world will clearly understand what is happening there.

According to most timelines I've heard, 2012 will be a critical year for preventing Iran's development of a nuclear weapon. In North Korea, there is now a 28-year-old dictator ruling over the country's cache of nuclear weapons and ballistic missiles, which should concern us deeply.

Recently, this Committee received an update from the Intelligence Community on the threat North Korea poses, and it was quite sobering. I won't go into any details, because they're classified, but I strongly believe this will need to be an area where the Intelligence Community continues to focus its resources and attention.

I think we all know the threat from Cyber. We all know the need to pass some legislation in this regard, and we know that the intrusions could be enormous—take down a dam, take down our electric grid—and United States companies have cost untold billions of dollars annually. China and Russia have both been named as aggressive and persistent cyber thieves.

In Afghanistan, the surge of U.S. forces that began in '09 has produced meaningful gains. That said, I think we're all very concerned about what will happen in 2014 when we reduce our troop commitment, and President Karzai's term is up. Frankly, I don't see a viable strategy for continuing the level of security and stability that we are building after 2014. And I'm also concerned by what appears to be a disparity between the discussion of Afghanistan in Director Clapper's statement for the record, and the bleaker description in the December 2011 NIE.

The Director's statement notes modest improvements in the challenges that remain. While I'm unable to describe the NIE, as it remains a classified document, news reports of the NIE describe it as "sobering" and "dire"—those words in quotes—and includes phrases like "mired in stalemate."

So I would like to ask the witnesses how they assess how stable Afghanistan will be in 2012, as well as 2014 and beyond.

I also want to note that last week I met with Zarar Ahmad Osmani, the Afghan Minister of Counter Narcotics, and I was very impressed. I believe he's making good progress in Afghanistan, and we should be supportive of his efforts to replicate the Helmand food zone in five other provinces to help farmers grow alternative crops instead of the heroin poppy.

Of course, Pakistan remains a huge problem, and I would very much appreciate your views on Pakistan's willingness to be a partner in our efforts against terrorists and in Afghanistan, as well as whether the civilian government can survive in light of other political controversies.

There are a couple of things I want to add, and I'm not sure this is a good place, but I'm going to do it anyway.

In this morning's edition of the Los Angeles Times, there was an article asserting that CIA Director David Petraeus has been inaccessible and guarded in his interactions with Congress and with the intelligence committees, in particular, since being sworn in last September. As far as I'm concerned, nothing could be farther from the truth. And I believe the Ranking Member—the Vice Chairman—would agree with that.

I spoke to the reporter last Friday and made very clear to him that this has not been my experience or, to the best of my knowledge, the Members' of this Committee. If it had been, I would have heard. Director Petraeus has appeared before us every month since becoming Director, and the Vice Chairman and I have had several phone calls and other meetings with him. He has upheld his obligation to keep the Committee fully and currently informed, and I regret that some people felt the need to engage in anonymous complaints.

I would also like to say that once again, this Committee has been put in a difficult position of trying to avoid any mention of classified matters when various parts of the Executive Branch may be doing somewhat the opposite. I ask Members to be careful in their questions and statements, and to remember that public discussion of some intelligence programs and assets can lead to them being compromised.

On the particular issue of drone strikes, I will only say what I was cleared to say in our joint hearing with the House Intelligence Committee last September. There's no issue that receives more attention and oversight from this Committee than the United States counterterrorism efforts going on along the Afghanistan-Pakistan border. These efforts are extremely precise and carefully executed and are the most effective tools we have. Noncombatant casualties are kept to an absolute minimum.

So now, if I may, Mr. Vice Chairman, I want you to know it's been a great pleasure for me to work with you. I also want the public to know that together, your side and our side have been able to pass three Intelligence Authorization Bills by unanimous consent in both houses. And it's just been a great pleasure for me to work with you. If you have some comments, if you would make them now, and then I'll introduce the speakers.

OPENING STATEMENT OF HON. SAXBY CHAMBLISS, VICE CHAIRMAN, A U.S. SENATOR FROM GEORGIA

Vice Chairman CHAMBLISS. Very good. Thanks, Madam Chair. And let me just echo the same sentiment to you with respect to our working relationship. It has been pretty seamless, both at a personal level at the top, as well as with our staff. I thank you for the way that you have integrated me into the vice chairmanship over this past year, and I look forward to continuing to work in a very close way with you. And also, I like your California wine, by the way.

I join the Chairwoman in welcoming our guests today. And this is certainly the brain trust of the Intelligence Community, and there's an awful lot of experience here. There's also an awful lot of talent at the table. But I'll comment more on the brave men and women that work for you, and the great job that they're doing.

The Committee holds most all of our meetings in closed session, so this annual threat hearing is one of the only opportunities we have to discuss in public the threats that face our nation.

It's also one of the few opportunities we do get to extend our public thanks to the men and women of the Intelligence Community. Because of the hard work of the folks who work for each of you, 2011 was a great year for the Intelligence Community, a year when

we finally saw the realization of a decade of work to ensure that Osama bin Laden and Anwar al-Awlaki will never again threaten this nation. I'm glad to say that we will no longer have an annual threat hearing where someone asks the question, "Where is Osama bin Laden?"

Last year's successes were no small achievement. They resulted from transformation and improvement in every IC agency. In particular, I am impressed by the work being done by CIA's Counterterrorism operators and analysts working together to take down terrorists and their network. We have heard from these officers in countless briefings that core al-Qa'ida is essentially on the ropes, as long as we continue sustained CT pressure on the group.

Director Clapper, this exact same sentiment is expressed in your written statement for the record for today's hearing. I know I am not alone on this panel in believing that we must continue whatever level of pressure it takes to degrade core al-Qa'ida once and for all. As we are seeing in Iraq, gains that took a decade to achieve can erode quickly if we do not do what it takes to protect them.

I also hope we are learning from other lessons from Iraq. I was dismayed by the Administration's decision to hand over custody of Hezbollah operative Ali Mussa Daqduq to Iraq last year. It is too late now to prevent what I believe will result in the ultimate release of a terrorist who killed five American soldiers in Iraq. But it is not too late to make sure that the same thing does not happen with the hundreds of terrorists still in detention in Afghanistan.

I hope our witnesses can discuss the range of likely threats posed by these detainees and the role of the Community in providing intelligence and support of planning for any handover of detention facilities to Afghans. I understand that this is going to be a challenge because the Administration still lacks a long-term detention policy, but we just cannot keep letting dangerous detainees go free.

This brings me to my last point. Press reports have outlined the Administration's plans to trade prisoners detained at Guantanamo Bay to the Taliban as a confidence-building measure. It appears from these reports that in exchange for transferring detainees who have been determined to be too dangerous to transfer by the Administration's own Guantanamo Review Task Force, we get little to nothing in return. Apparently, the Taliban will not have to stop fighting our troops, and won't even have to stop bombing them with IEDs.

I have also heard nothing from the IC that suggests that the assessments on the threat posed by these detainees have changed. I want to state publicly, as strongly as I can, that we should not transfer these detainees from Guantanamo. Moreover, I believe the Community should declassify the intelligence assessments on these detainees so that we can have a full and open debate without the wisdom of this transfer before it takes place.

Let me conclude with two other comments. First of all, with respect to the LA Times article, Madam Chair, I did not see that this morning, but I want to again state in an unequivocal fashion that Director Petraeus has done an outstanding job in service to our country in many capacities, as his service in the military would indicate. And during the time that he has been the Director of the

CIA, you're exactly right—he has stayed in constant communication with the two of us, and I know with our colleagues on the House side. He has been readily available to come to the Committee on a formal and an informal basis, as well as being available at any time for us to have a conversation with. And I'm surprised that there would be any question about that.

And as we all know, we have the utmost confidence in his leadership, along with the leadership of the entire Community. And there has been, again, a seamless transition from Director Panetta to Director Petraeus, and we're very confident of his leadership.

One other issue that I want to mention is that following the event of September 11, as a Member of the House Select Committee on Intelligence, Congressman Jane Harman and I chaired a subcommittee on the Intel Committee that did a review of the facts leading up the events of September 11. And we issued the first detailed report on the deficiencies within the Intelligence Community that led up to September 11. And we were very critical of the Community in one respect, particularly, and that was the lack of the sharing of information between our various agencies within the Community.

Director Mueller, you and I have had extensive conversations, since you've been here longer than any of the rest of the Members here, about that issue. And I just want to say that over the past decade, the stovepipes that we alluded to in that report have continued to fall. And I would have to say that today, without question, while we still have improvements to be made, that the sharing of information between all of our agencies is at a superior level.

And Mr. Olsen, I had the privilege, as you know, of visiting with your folks at NCTC recently. It was very impressive to not only see the improvement from a technology standpoint, but just to see every member of the Intelligence Community sitting around a table virtually and discussing in real-time the issues that face the Community from a CT standpoint. It's very impressive. And I commend all of you for the great work you've done.

It's not been easy, and I know sometimes it's very difficult to put aside some of the previous relationships that might have existed. But boy, have you all ever done a good job breaking down those firewalls and really engaging with every member of the Intelligence Community to ensure that we disrupt and interrupt terrorist activity around the world that's directed at America, Americans, as well as other countries and allies around the world. So I commend you from that respect.

I thank you for being here today, and I look forward to your testimony. Thank you, Madam Chair.

Chairman FEINSTEIN. Thank you very much, Mr. Vice Chairman. Now I'd like to introduce the distinguished panel before us.

They are: the Director of National Intelligence, James Clapper, who will deliver an opening statement on behalf of the entire Intelligence Community; Director of the Central Intelligence Agency, David Petraeus; Director of the Defense Intelligence Agency, General Ronald Burgess; Director of the Federal Bureau of Investigation, Bob Mueller; Director of the National Counterterrorism Center, Matthew Olsen; Assistant Secretary of State for Intelligence and Research, Philip Goldberg; and Under Secretary for Intel-

ligence and Analysis at the Department of Homeland Security, Caryn Wagner. Thank you all very much for being here.

We will now take your statement, Director Clapper, and we will then go into 10-minute rounds based on the early-bird rule.

Director Clapper, welcome.

STATEMENT OF JAMES R. CLAPPER, DIRECTOR OF NATIONAL INTELLIGENCE

Director CLAPPER. Thank you, Chairman Feinstein, Vice Chairman Chambliss, and distinguished Members of the Committee, for inviting us to present the 2012 Worldwide Threat Assessment.

These remarks and our statement for the record reflect the collective insights of the extraordinary men and women of the United States Intelligence Community, whom it is our privilege and honor to lead. And on their behalf, I would thank you both for your acknowledgment and recognition of the great work that these men and women do all over the world, day in and day out, in many cases at some hazard.

I won't attempt to cover the full scope of the worldwide threats in these brief oral remarks, so I'd like to highlight just some of the issues we identified for the coming year.

Never has there been, in my almost-49-year career in intelligence, a more complex and interdependent array of challenges than we face today. Capabilities, technologies, know-how, communications, and environmental forces aren't confined by borders and can trigger transnational disruptions with astonishing speed, as we have seen.

Never before has the Intelligence Community been called upon to master such complexity on so many issues in such a resource-constrained environment. We're rising to the challenge by continuing to integrate the Intelligence Community, as you both alluded to, taking advantage of new technologies, implementing new efficiencies, and, as always, simply working hard. But, candidly, maintaining the world's premier intelligence enterprise in the face of shrinking budgets will be difficult. We'll be accepting and managing risk more so than we've had to do in the last decade.

We begin our threat assessment, as we did last year, with the global issues of terrorism and proliferation. The Intelligence Community sees the next two to three years as a critical transition phase for the terrorist threat, particularly for al-Qa'ida and like-minded groups.

With Osama bin Laden's death, the global jihadist movement lost its most iconic and inspirational leader. The new al-Qa'ida commander is less charismatic, and the death or capture of prominent al-Qa'ida figures has shrunk the group's top leadership layer. However, even with its degraded capabilities and its focus on smaller, simpler plots, al-Qa'ida remains a threat. As long as we sustain the pressure on it, we judge that core al-Qa'ida will be of largely symbolic importance to the global jihadist movement. But regional affiliates, as the ones you mentioned, and, to a lesser extent, small cells and individuals, will drive the global jihad agenda.

Proliferation—that is, efforts to develop, acquire, or spread weapons of mass destruction—is also a major global strategic threat. Among nation states, Iran's technical advances, particularly in ura-

nium enrichment, strengthen our assessment that Iran is well capable of producing enough highly-enriched uranium for a weapon, if its political leaders, specifically the Supreme Leader himself, choose to do so.

North Korea's export of ballistic missiles and associated materials to several countries, including Iran and Syria, illustrate the reach of the North's proliferation activities. We don't expect Kim Jong-Un, North Korea's new young leader, to change Pyongyang's policy of attempting to export most of its weapons systems.

I would note that in this year's statement for the record, we elevated our discussion of cyber threats to follow terrorism and proliferation. The cyber threat is one of the most challenging ones we face, as you alluded. We foresee a cyber environment in which emerging technologies are developed and implemented before security responses can be put in place.

Among state actors, we're particularly concerned about entities within China and Russia conducting intrusions into U.S. computer networks and stealing U.S. data. The growing role that non-state actors are playing in cyberspace is a great example of the easy access to potentially disruptive and even lethal technology and know-how by such groups.

Two of our greatest strategic cyber challenges are, first, definitive real-time attribution of cyber attacks—that is, knowing who carried out such attacks and where these perpetrators are located; and second, managing the enormous vulnerabilities within the IT supply chain for U.S. networks.

Briefly, looking geographically around the world, during the past year in Afghanistan, the Taliban lost some ground, but that was mainly in places where the International Security Assistance Forces, or ISAF, are concentrated. And the Taliban senior leaders continue to enjoy safe haven in Pakistan.

ISAF's efforts to partner with Afghan National Security Forces are encouraging, but corruption and governance challenges continue to threaten the Afghan forces' operational effectiveness. Most provinces have established basic governance structures, but they struggle to provide essential services. The ISAF and the support of Afghanistan's neighbors, notably and particularly Pakistan, will remain essential to sustain the gains that have been achieved.

And although there's broad international political support for the Afghan government, there are doubts in many capitals, particularly in Europe, about how to fund Afghan initiatives after 2014.

In Iraq, violence and sporadic high-profile attacks continue. Prime Minister Maliki's recent aggressive moves against Sunni political leaders have heightened political tensions. But for now, the Sunnis continue to view the political process as the best venue to pursue change.

Elsewhere across the Mideast and North Africa, those pushing for change are confronting ruling elites; sectarian, ethnic, and tribal divisions; lack of experience with democracy; stalled economic development; military and security force resistance; and regional power rivalries. These are fluid political environments that offer openings for extremists to participate much more assertively in political life. States where authoritarian leaders have been toppled,

like Tunisia, Egypt, and Libya, have to reconstruct their political systems through complex negotiations among competing factions.

In Syria, regime intransigence and social divisions are prolonging internal struggles and could potentially turn domestic upheavals into regional crises. In Yemen, although a political transition is underway, the security situation continues to be marred by violence, and fragmentation of the country is a real possibility. As the ancient Roman historian Tacitus once observed, "The best day after a bad emperor is the first." After that, I would add, things get very problematic.

The Intelligence Community is also paying close attention to developments across the African continent, throughout the Western Hemisphere, Europe, and across Asia. Here, too, few issues are self-contained. Virtually every region has a bearing on our key concerns of terrorism, proliferation, cyber security, and instability. And throughout the globe wherever there are environmental stresses on water, food and natural resources, as well as health threats, economic crises and organized crime, we see ripple effects around the world and impacts on U.S. interests.

Amidst these extraordinary challenges, it's important to remind this distinguished body and the American people that in all of our work, the U.S. Intelligence Community strives to exemplify American values. We carry out our missions with respect for the Rule of Law and the protection of Civil Liberties and Privacy. And that pledge leads me to a crucial recommendation on our highest legislative priority this year, and it requires the support of this Committee and both houses of Congress.

The Foreign Intelligence Surveillance Amendments Act, or FAA, is set to expire at the end of this year. Title VII of FISA allows the Intelligence Community to collect vital information about international terrorists and other important targets overseas. The law authorizes the surveillance of non-U.S. persons located overseas who are of foreign intelligence importance, meaning they have a connection to, or information about, threats such as terrorism or proliferation.

It also provides for comprehensive oversight by all three branches of government to protect the privacy and civil liberties of U.S. persons. The Department of Justice and my office conduct extensive oversight reviews of these activities and we report to Congress on implementation and compliance twice a year. Intelligence collection under FISA produces crucial intelligence that is vital to protect the nation against international terrorism and other threats.

We're always considering whether there are changes that could be made to improve the law, but our first priority is reauthorization of these authorities in their current form. We look forward to working with you to ensure the speedy enactment of legislation to reauthorize the FISA Amendments Act so that there's no interruption in our ability to use these authorities to protect the American people.

So I'll end this brief statement where I began. The fiscal environment we face as a nation and in our Intelligence Community will require careful identification and management of the challenges the IC focuses on, and the risks that we must mutually assume.

With that, I thank you and the Members of this Committee for your dedication to the security of our nation, your support for the men and women of the Intelligence Community, and for your attention today. My colleagues and I look forward to your questions and our discussion. Thank you.

[The prepared statement of James R. Clapper, Director of National Intelligence, follows:]

Unclassified Statement for the Record on the Worldwide Threat Assessment of the US Intelligence Community for the Senate Select Committee on Intelligence

James R. Clapper

Director of National Intelligence

January 31, 2012

US INTELLIGENCE COMMUNITY
WORLDWIDE THREAT ASSESSMENT
STATEMENT FOR THE RECORD
JANUARY 31, 2012

STATEMENT FOR THE RECORD

Chairman Feinstein, Vice Chairman Chambliss, Members of the Committee, thank you for the invitation to offer the Intelligence Community's assessment of threats to US national security.

This statement provides extensive detail about numerous state and nonstate actors, crosscutting political, economic, and military developments and transnational trends, all of which constitute our nation's strategic and tactical landscape. Although I believe that counterterrorism, counterproliferation, cybersecurity, and counterintelligence are at the immediate forefront of our security concerns, it is virtually impossible to rank—in terms of long-term importance—the numerous, potential threats to US national security. The United States no longer faces—as in the Cold War—one dominant threat. Rather, it is the multiplicity and interconnectedness of potential threats—and the actors behind them—that constitute our biggest challenge. Indeed, even the four categories noted above are also inextricably linked, reflecting a quickly changing international environment of rising new powers, rapid diffusion of power to nonstate actors and ever greater access by individuals and small groups to lethal technologies. We in the Intelligence Community believe it is our duty to work together as an integrated team to understand and master this complexity. By providing better strategic and tactical intelligence, we can partner more effectively with other Government officials at home and abroad to protect our vital national interests.

Terrorism

The next two to three years will be a critical transition phase for the terrorist threat facing the United States, particularly from al-Qa'ida and like-minded groups, which we often refer to as the "global jihadist movement." During this transition, we expect leadership of the movement to become more decentralized, with "core" al-Qa'ida—the Pakistan-based group formerly led by Usama bin Ladin—diminishing in operational importance; regional al-Qa'ida affiliates planning and attempting terrorist attacks; multiple voices providing inspiration for the movement; and more vigorous debate about local versus global agendas. We assess that with continued robust counterterrorism (CT) efforts and extensive cooperation with our allies and partners, there is a better-than-even chance that decentralization will lead to fragmentation of the movement within a few years. With fragmentation, core al-Qa'ida will likely be of largely symbolic importance to the movement; regional groups, and to a lesser extent small cells and individuals, will drive the global jihad agenda both within the United States and abroad.

- During and after this transition, the movement will continue to be a dangerous transnational force, regardless of the status of core al-Qa'ida, its affiliates, and its allies. Terrorist groups and individuals sympathetic to the jihadist movement will have access to the recruits, financing, arms and explosives, and safe havens needed to execute operations.

- A key challenge for the West during this transition will be conducting aggressive CT operations while not exacerbating anti-Western global agendas and galvanizing new fronts in the movement.

The CBRN Threat

We assess that a mass attack by foreign terrorist groups involving a chemical, biological, radiological or nuclear (CBRN) weapon in the United States is unlikely in the next year, as a result of intense counterterrorism pressure. Nevertheless, given the compartmented nature of CBRN programs, the spread of technological information, and the minimal infrastructure needed for some CBRN efforts, the Intelligence Community remains alert to the CBRN threat.

Although we assess that a mass attack is unlikely, we worry about a limited CBR attack in the United States or against our interests overseas in the next year because of the interest expressed in such a capability by some foreign groups, such as al-Qa'ida in the Arabian Peninsula's (AQAP).

- The IC judges that lone actors abroad or in the United States—including criminals and homegrown violent extremists (HVEs) inspired by terrorist leaders or literature advocating use of CBR materials—are capable of conducting at least limited attacks in the next year, but we assess the anthrax threat to the United States by lone actors is low.

Core Al-Qa'ida in Decline

With Usama bin Ladin's death, the global jihadist movement lost its most iconic and inspirational leader, even for disaffected members of the group.

- We do not assess that al-Qa'ida's new leader, Ayman al-Zawahiri, will change al-Qa'ida's strategic direction, but most al-Qa'ida members find Zawahiri's leadership style less compelling than bin Ladin's image as a holy man and warrior, and will not offer him the deference they gave bin Ladin.

The death or capture of prominent al-Qa'ida figures since bin Ladin's death has shrunk the layer of top lieutenants directly under Zawahiri. These losses, combined with the long list of earlier losses since CT operations intensified in 2008, lead us to assess that core al-Qa'ida's ability to perform a variety of functions—including preserving leadership and conducting external operations—has weakened significantly.

- We judge that al-Qa'ida's losses are so substantial and its operating environment so restricted that a new group of leaders, even if they could be found, would have difficulty integrating into the organization and compensating for mounting losses.

- We judge that with its degraded capabilities al-Qa'ida increasingly will seek to execute smaller, simpler plots to demonstrate relevance to the global jihad, even as it aspires to mass casualty and economically damaging attacks, including against the United States and US interests overseas.

- With sustained CT pressure, we anticipate that core al-Qaida will suffer sustained degradation, diminished cohesion, and decreasing influence in the coming year.

Leadership of the Global Jihad

We assess that core al-Qa'ida still communicates with its affiliates, but its ability to do so probably rests with only a few remaining senior leaders and their communications facilitators. We judge senior leaders almost certainly believe that persistent contact with affiliates is necessary to influence them to act on al-Qa'ida's global priorities and preserve a unified narrative.

The IC judges that al-Qaida's regional affiliates—al-Qa'ida in the Arabian Peninsula (AQAP), al-Qa'ida in Iraq (AQI), al-Qa'ida in the Islamic Maghreb (AQIM), and al-Shabaab—will remain committed to the group's ideology, and in terms of threats to US interests will surpass the remnants of core al-Qa'ida in Pakistan. We expect that each group will seek opportunities to strike Western targets in its operating area, but the intent and ability of each affiliate to conduct transnational attacks varies widely. The future of any affiliate, and its role in the jihadist movement, will depend on how external forces (primarily the pace and effectiveness of CT operations) and internal forces (the competition between the local and global jihadist agendas) play out.

- Despite the death in September of **AQAP** transnational operations chief and US person Anwar al-Aulaqi, we judge AQAP remains the node most likely to attempt transnational attacks. His death probably reduces, at least temporarily, AQAP's ability to plan transnational attacks, but many of those responsible for implementing plots, including bombmakers, financiers, and facilitators, remain and could advance plots.

- We assess that **AQI** will remain focused on overthrowing the Shia-led government in Baghdad in favor of a Sunni-led Islamic caliphate. It probably will attempt attacks primarily on local Iraqi targets, including government institutions, Iraqi Security Forces personnel, Shia civilians, and recalcitrant Sunnis, such as members of the Sons of Iraq, and will seek to re-build support among the Sunni population. In its public statements, the group also supports the goals of the global jihad, and we are watchful for indications that AQI aspires to conduct attacks in the West.

In Africa, **AQIM** and **al-Shabaab** are prioritizing local interests—combating regional CT operations—over transnational operations. Al-Shabaab has many sub-clans with divergent interests; most rank and file fighters have no interest in global jihad.

- Internal divisions and diminished local support for al-Shabaab in the wake of the 2011 humanitarian crisis, coupled with military pressure from the African Union Mission in Somalia (AMISOM), Transitional Federal Government (TFG), Kenya, and Ethiopia, have eroded al-Shabaab's control in southern Somalia. In late 2011, Kenyan troops moved to encircle the port of Kismaayo, the port al-Shabaab has used in past years to generate much of its revenue. The ability of anti-Shabaab forces to consolidate gains, control proxy forces, and win support of local clans will be key to preventing al-Shabaab's reclamation of Somali territory.

- We assess that most al-Shabaab members in 2012 will remain focused on battling AMISOM, TFG, and Ethiopian/Kenyan-backed forces in Somalia. However, other al-Shabaab leaders may intend to expand the group's influence and plan attacks outside areas that al-Shabaab controls in southern and central Somalia, such as in East Africa; al-Shabaab fighters were responsible for twin bombings in Uganda in July 2010. Members of the group—particularly a foreign fighter cadre that includes US passport holders—may also have aspirations to attack inside the United States; however, we lack insight into concrete operational plans outside the Horn of Africa.

Other militant and terrorist networks will continue to threaten US interests outside their primary operating areas. However, we judge that most lack either the capability or intent to plan, train for, and execute sophisticated attacks in the United States. **Tehrik-e Taleban Pakistan (TTP)**, for example, is likely to remain heavily engaged against the Pakistani military and Coalition forces in Afghanistan, while providing some support to the Afghan insurgency.

The Threat from Homegrown Violent Extremists

We assess that at least in the near term the threat in the United States from homegrown violent extremists (HVE) will be characterized by lone actors or small groups inspired by al-Qa'ida's ideology but not formally affiliated with it or other related groups. Most HVEs are constrained tactically by a difficult operating environment in the United States, but a handful have exhibited improved tradecraft and operational security and increased willingness to consider less sophisticated attacks, which suggests the HVE threat may be evolving.

- In the past decade, most HVEs who have aspired to high-profile, mass-casualty attacks in the United States—typically involving the use of explosives against symbolic infrastructure, government, and military targets—did not have the technical capability to match their aspirations; however, in 2009, extremists who were first radicalized in the United States, but then travelled overseas and received training and guidance from terrorist groups, attempted two mass-casualty explosives attacks in the United States.

We remain alert to potential dynamics that might emerge in the United States, online, or overseas that would alter the nature of the HVE threat. Some include:

- A galvanizing event or series of events perceived to reflect an anti-Islamic bias or agenda in the United States.
- US or Western military involvement in another Muslim country.
- Increased HVE learning from past disruptions and plots.
- Increased HVE use of the Internet to share propaganda, form social or peer networks, or recruit others for attack planning.
- Civil or inter-state conflict overseas leading to the radicalization of individuals in diaspora communities in the United States.

The Threat from Iran

The 2011 plot to assassinate the Saudi Ambassador to the United States shows that some Iranian officials—probably including Supreme Leader Ali Khamenei—have changed their calculus and are now more willing to conduct an attack in the United States in response to real or perceived US actions that threaten the regime. We are also concerned about Iranian plotting against US or allied interests overseas.

- Iran's willingness to sponsor future attacks in the United States or against our interests abroad probably will be shaped by Tehran's evaluation of the costs it bears for the plot against the Ambassador as well as Iranian leaders' perceptions of US threats against the regime.

Proliferation

Nation-state efforts to develop, acquire, and/or proliferate weapons of mass destruction (WMD) and their related delivery systems constitute a major threat to the safety of our nation, our deployed troops, and our allies. The threat and destabilizing effect of nuclear proliferation, as well as the threat from the proliferation of materials and technologies that could contribute to existing and prospective chemical and biological weapons programs, are among our top concerns.

Traditionally, deterrence and diplomacy have constrained most nation states from acquiring biological, chemical, or nuclear weapons, but these constraints may be of less utility in preventing terrorist groups from doing so. The time when only a few states had access to the most dangerous technologies is past. Biological and chemical materials and technologies, almost always dual-use, move easily in our globalized economy, as do the personnel with scientific expertise to design and use them. The latest discoveries in the life sciences diffuse globally and rapidly.

We assess that no nation states have provided WMD assistance to terrorist groups and that no nonstate actors are targeting WMD sites in countries with unrest; however, as governments become unstable and transform, WMD-related materials may become vulnerable to nonstate actors, if the security that protects them erodes.

WMD Threats: Iran and North Korea

We assess **Iran** is keeping open the option to develop nuclear weapons, in part by developing various nuclear capabilities that better position it to produce such weapons, should it choose to do so. We do not know, however, if Iran will eventually decide to build nuclear weapons.

Iran nevertheless is expanding its uranium enrichment capabilities, which can be used for either civil or weapons purposes. As reported by the International Atomic Energy Agency, to date, Iran in late October 2011 had about 4,150 kg of 3.5 percent $LEUF_6$ and about 80 kg of 20-percent enriched UF_6 produced at Natanz. Iran confirmed on 9 January that it has started enriching uranium for the first time at its second enrichment plant, near Qom.

Iran's technical advancement, particularly in uranium enrichment, strengthens our assessment that Iran has the scientific, technical, and industrial capacity to eventually produce nuclear weapons, making the central issue its political will to do so. These advancements contribute to our judgment that Iran is technically capable of producing enough highly enriched uranium for a weapon, if it so chooses.

We judge Iran would likely choose missile delivery as its preferred method of delivering a nuclear weapon. Iran already has the largest inventory of ballistic missiles in the Middle East, and it is expanding the scale, reach, and sophistication of its ballistic missile forces, many of which are inherently capable of carrying a nuclear payload.

We judge Iran's nuclear decisionmaking is guided by a cost-benefit approach, which offers the international community opportunities to influence Tehran. Iranian leaders undoubtedly consider Iran's security, prestige, and influence, as well as the international political and security environment, when making decisions about its nuclear program.

Iran's growing inventory of ballistic missiles and its acquisition and indigenous production of anti-ship cruise missiles (ASCM) provide capabilities to enhance its power projection. Tehran views its conventionally armed missiles as an integral part of its strategy to deter—and if necessary retaliate against—forces in the region, including US forces. Its ballistic missiles are inherently capable of delivering WMD, and, if so armed, would fit into this strategy.

North Korea's nuclear weapons and missile programs pose a serious threat to the security environment in East Asia. Its export of ballistic missiles and associated materials to several countries, including Iran and Syria, and its assistance to Syria—now ended—in the construction of a nuclear reactor (destroyed in 2007), illustrate the reach of the North's proliferation activities. Despite the October 2007 Six-Party agreement—in which North Korea reaffirmed its commitment not to transfer nuclear materials, technology, or know-how—we remain alert to the possibility that North Korea might again export nuclear technology.

We judge North Korea has tested two nuclear devices. Its October 2006 nuclear test is consistent with our longstanding assessment that it produced a nuclear device, although we judge the test itself was a partial failure. The North's probable nuclear test in May 2009 had a yield of roughly two kilotons TNT equivalent and was apparently more successful than the 2006 test. These tests strengthen our assessment that North Korea has produced nuclear weapons.

In November 2010, North Korea revealed a claimed 2,000 centrifuge uranium enrichment facility to an unofficial US delegation visiting the Yongbyon Nuclear Research Center, and stated it would produce low-enriched uranium to fuel a planned light-water reactor under construction at Yongbyon. The North's disclosure supports the United States' longstanding assessment that North Korea has pursued a uranium-enrichment capability.

The Intelligence Community assesses Pyongyang views its nuclear capabilities as intended for deterrence, international prestige, and coercive diplomacy. We judge that North Korea would consider using nuclear weapons only under narrow circumstances. We also assess, albeit with low

confidence, Pyongyang probably would not attempt to use nuclear weapons against US forces or territory, unless it perceived its regime to be on the verge of military defeat and risked an irretrievable loss of control.

Cyber Threats: An Evolving and Strategic Concern

Major Trends

Cyber threats pose a critical national and economic security concern due to the continued advances in—and growing dependency on—the information technology (IT) that underpins nearly all aspects of modern society. Data collection, processing, storage, and transmission capabilities are increasing exponentially; meanwhile, mobile, wireless, and cloud computing bring the full power of the globally-connected Internet to myriad personal devices and critical infrastructure. Owing to market incentives, innovation in functionality is outpacing innovation in security, and neither the public nor private sector has been successful at fully implementing existing best practices.

The impact of this evolution is seen not only in the scope and nature of cyber security incidents, but also in the range of actors and targets. In the last year, we observed increased breadth and sophistication of computer network operations (CNO) by both state and nonstate actors. Our technical advancements in detection and attribution shed light on malicious activity, but cyber intruders continue to explore new means to circumvent defensive measures.

Among state actors, China and Russia are of particular concern. As indicated in the October 2011 biennial economic espionage report from the National Counterintelligence Executive, entities within these countries are responsible for extensive illicit intrusions into US computer networks and theft of US intellectual property.

Nonstate actors are also playing an increasing role in international and domestic politics through the use of social media technologies. We currently face a cyber environment where emerging technologies are developed and implemented faster than governments can keep pace, as illustrated by the failed efforts at censoring social media during the 2011 Arab Spring revolutions in Tunisia, Egypt, and Libya. Hacker groups, such as Anonymous and Lulz Security (LulzSec), have conducted distributed denial of service (DDoS) attacks and website defacements against government and corporate interests they oppose. The well publicized intrusions into NASDAQ and International Monetary Fund (IMF) networks underscore the vulnerability of key sectors of the US and global economy.

Hackers are also circumventing network security by targeting companies that produce security technologies, highlighting the challenges to securing online data in the face of adaptable intruders. The compromise of US and Dutch digital certificate issuers in 2011 represents a threat to one of the most fundamental technologies used to secure online communications and sensitive transactions, such as online banking. Hackers also accessed the corporate network of the computer security firm RSA in March 2011 and exfiltrated data on the algorithms used in its authentication system.

Subsequently, a US defense contractor revealed that hackers used the information obtained from RSA to access its network.

Outlook

We assess that CNO is likely to increase in coming years. Two of our greatest strategic challenges regarding cyber threats are: (1) the difficulty of providing timely, actionable warning of cyber threats and incidents, such as identifying past or present security breaches, definitively attributing them, and accurately distinguishing between cyber espionage intrusions and potentially disruptive cyber attacks; and (2) the highly complex vulnerabilities associated with the IT supply chain for US networks. In both cases, US Government engagement with private sector owners and operators of critical infrastructures is essential for mitigating these threats.

Counterintelligence

We assess that foreign intelligence services (FIS) are constantly developing methods and technologies that challenge the ability of the US Government and private sector to protect US national security and economic information, information systems, and infrastructure. The changing, persistent, multifaceted nature of these activities makes them particularly difficult to counter.

Given today's environment, we assess that the most menacing foreign intelligence threats in the next two to three years will involve:

- **Cyber-Enabled Espionage.** FIS have launched numerous computer network operations targeting US Government agencies, businesses, and universities. We assess that many intrusions into US networks are not being detected. Although most activity detected to date has been targeted against unclassified networks connected to the Internet, foreign cyber actors have also begun targeting classified networks.

- **Insider Threats.** Insiders have caused significant damage to US interests from the theft and unauthorized disclosure of classified, economic, and proprietary information and other acts of espionage. We assess that trusted insiders using their access for malicious intent represent one of today's primary threats to US classified networks.

- **Espionage by China, Russia, and Iran.** Russia and China are aggressive and successful purveyors of economic espionage against the United States. Iran's intelligence operations against the United States, including cyber capabilities, have dramatically increased in recent years in depth and complexity. We assess that FIS from these three countries will remain the top threats to the United States in the coming years.

We judge that evolving business practices and information technology will provide even more opportunities for FIS, trusted insiders, hackers, and others to collect sensitive US economic data. Corporate supply chains and financial networks will increasingly rely on global links that can be

exploited by foreign collectors, and the growing use of cloud data processing and storage may present new challenges to the security and integrity of sensitive information.

Mass Atrocities

Presidential Study Directive-10, issued in August 2011, identifies the prevention of mass atrocities and genocide as a core national security interest and moral responsibility of the United States. Mass atrocities generally involve large-scale and deliberate attacks on civilians, and can include genocide. The Presidential Directive establishes an interagency Atrocities Prevention Board that will coordinate a US Government-wide effort to prevent or mitigate such violence. The Intelligence Community will play a significant role in this effort, and we have been asked to expand collection and analysis and to encourage partner governments to collect and share intelligence on this issue.

Unfortunately, mass atrocities have been a recurring feature of the global landscape. Since the turn of century, hundreds of thousands of civilians have lost their lives during conflicts in the Darfur region of Sudan and in the eastern Congo (Kinshasa). Recently, atrocities in Libya and Syria have occurred against the backdrop of major political upheavals. Mass atrocities usually occur in the context of other instability events and often result from calculated strategies by new or threatened ruling elites to assert or retain control, regardless of the cost. Violence against civilians also emerges in places where poorly institutionalized governments discriminate against minorities, socioeconomic conditions are poor, or local powerbrokers operate with impunity, as in Kyrgyzstan in 2010. In addition, terrorists and insurgents may exploit similar conditions to conduct attacks against civilians, as in Boko Haram's recent attacks on churches in Nigeria.

Global Challenges

South Asia

Afghanistan

The Afghan Government will continue to make incremental, fragile progress in governance, security, and development in 2012. Progress will depend on capable Afghan partners and require substantial international support, particularly to fight the still resilient, Taliban-led insurgency. International Security Assistance Forces (ISAF) will remain essential to secure gains and nurture developmental initiatives through 2012. Enduring stability also depends heavily but not exclusively on neighboring states, especially Pakistan. We judge that, although there is broad international political support for the Afghan Government, many European governments harbor doubts about funding for Afghanistan initiatives post-2014.

Resilient Insurgency

We assess that the Taliban-led insurgency in Afghanistan has lost ground in some areas. For example, the Taliban's ability to influence the population and maintain its strongholds inside

Afghanistan has diminished since last year. However, its losses have come mainly in areas where ISAF surge forces are concentrated; it remains resilient and capable of challenging US and international goals; and Taliban senior leaders continue to enjoy safe haven in Pakistan, which enables them to provide strategic direction to the insurgency and not fear for their safety.

We assess al-Qa'ida's impact on the Afghanistan insurgency is limited. It most often works to support other insurgent groups that do not rely on al-Qa'ida or foreign fighter participation to mount successful operations. That said, al-Qa'ida is committed to the Afghan jihad, and the propaganda gains from participating in insurgent attacks outweigh their limited battlefield impact.

Afghan Internal Capabilities

In terms of security, we judge that the Afghan police and Army will continue to depend on ISAF support. ISAF partnering and mentoring have begun to show signs of sustainable progress at the tactical and ministerial levels; however, corruption as well as poor leadership and management will threaten Afghan National Security Forces' (ANSF) operational effectiveness.

In terms of governance, there have been incremental improvements extending rule of law, including official endorsement of traditional legal systems, and most provinces have established basic governance structures. However, provinces still struggle to provide essential services. Moreover, access to official governance is primarily limited to urban areas, such as district and provincial capitals, leaving much of the rural population isolated from the government.

The Karzai government did achieve some successes in 2011. The first phase of the process to transition security to Afghan leadership proceeded smoothly, and the second tranche of the transition is progressing as scheduled. The Karzai administration successfully convened a Loya Jirga in November to socialize the strategic partnership with the United States. Now that the fall 2010 electoral crisis is resolved, the Wolesi Jirga will likely regroup during the current winter recess and return its focus to limiting President Karzai's authority, likely using the parliamentary approval process for ministerial appointees as a way to highlight Parliament's independence.

Status of the Afghan Drug Trade

Afghanistan is the largest supplier of illicit opium to the world market and probably produces enough to fulfill yearly global demand for illicit opiates. Afghans earned $1.8 billion from the opiate trade, equivalent to 12 percent of the licit GDP in 2010, according to US Government, IMF, and United Nations estimates. We judge the level of security in local areas, including ease of access to markets for licit crops, is the most significant factor affecting poppy farmers' decisionmaking; additional contributing factors include coercive measures, the viability of licit crops, and, to a lesser extent, opium prices.

Pakistan

We judge al-Qa'ida operatives are balancing support for attacks in Pakistan with guidance to refocus the global jihad externally, against US targets. Al-Qa'ida also will increasingly rely on ideological and operational alliances with Pakistani militant factions to accomplish its goals within Pakistan and to conduct transnational attacks. Pakistani military leaders have had limited success

against al-Qa'ida operatives, other foreign fighters, and Pakistani militants who pose a threat to Islamabad.

Meanwhile, the country's economic recovery is at risk. In an effort to keep its coalition in power to the end of the five-year parliamentary term, the government has been unwilling to persuade its disparate coalition members to accept much needed but unpopular policy and tax reforms. Sustained remittances from overseas Pakistanis (on the order of $10-12 billion a year) have kept reserves high, as have borrowed resources from the IMF. However, the economy last fiscal year expanded at a slower rate of about 2 percent, partly because of flood damages; both foreign direct investment and domestic investment are declining; and Pakistan's investment-to-Gross Domestic Product (GDP) ratio declined for the third year in a row to 13.4 percent at the beginning of the fiscal year in July 2011.

India

Relations with Pakistan

After a four-year pause, India and Pakistan revived expert-level discussions on conventional and nuclear confidence-building measures (CBM), when they met in Islamabad December 26-27, 2011. Following the meetings, a joint statement noted that both sides reviewed the implementation and strengthening of existing CBMs in the framework of the Lahore MoU, and agreed to explore possibilities for additional, mutually acceptable CBMs. India-Pakistan relations also improved in 2011 after both sides in February agreed to resume the bilateral dialogue, suspended since the November 2008 terrorist attack in Mumbai.

- The two countries' home secretaries in March charted a work program to improve cooperation, including commitments to establish a hotline, streamline visa procedures, and meet on a biannual basis. Both sides also began to negotiate procedures to review each other's investigations into the Mumbai attack. The two countries are making progress in these areas.

- Prime Minister Singh and Prime Minister Gilani had cordial meetings during the April international cricket championships and the November South Asia Association for Regional Cooperation (SAARC) meeting.

- Progress expanding trade ties has also helped improve relations, and Islamabad in November publicly committed to a proposal for granting most favored nation trade status to India.

- Less progress has been made in discussions over the difficult border issues of Siachen Glacier and Sir Creek, and we judge New Delhi will maintain a go-slow approach in these negotiations.

Relations with Afghanistan

India significantly increased its engagement with Afghanistan in 2011, when it pledged another $500 million in aid during Prime Minister Singh's May visit to Kabul and finalized a Strategic Partnership Agreement with Afghanistan in October. This pact is likely to facilitate closer bilateral security cooperation, more training of Afghan security personnel, and modest material support to

Afghan Government security forces. However, New Delhi in the near term is unlikely to send troops or heavy equipment to Kabul because it does not want to provoke Pakistan. India's increased engagement is aimed at helping the Afghan Government sustain its sovereignty and independence during and after ISAF forces draw down. The Indian Government also is increasing efforts to spur Indian investment in Afghanistan's fledgling natural resources sector, which New Delhi sees as crucial to its strategic and economic interests in the region.

We judge that India sees its goals in Afghanistan as consistent with US objectives and favors a sustained ISAF and US presence in the country. India will almost certainly cooperate with the United States and Afghanistan in bilateral and multilateral frameworks to identify assistance activities that will help bolster civil society, develop capacity, and strengthen political structures in Afghanistan. Moreover, India consistently ranks among the top three nations that Afghans see as helping their country rebuild. As of August 2011, India ranked as Afghanistan's fifth largest bilateral donor.

Relations with China

Despite public statements intended to downplay tensions between India and China, we judge that India is increasingly concerned about China's posture along their disputed border and Beijing's perceived aggressive posture in the Indian Ocean and Asia-Pacific region. The Indian Army believes a major Sino-Indian conflict is not imminent, but the Indian military is strengthening its forces in preparation to fight a limited conflict along the disputed border, and is working to balance Chinese power projection in the Indian Ocean. India has expressed support for a strong US military posture in East Asia and US engagement in Asia.

East Asia

North Korea

Kim Jong Un became North Korea's leader following the death of his father, Kim Jong Il, on 17 December 2011. Although it is still early to assess the extent of his authority, senior regime leaders will probably remain cohesive at least in the near term to prevent instability and protect their interests.

China

China in 2011 appeared to temper the assertive behavior that characterized its foreign policy the year before, but the internal and external drivers of that behavior persist. Moreover, although Chinese leaders have affirmed their commitment to a peaceful and pragmatic foreign policy—and especially to stable relations with China's neighbors and the rest of the world—Beijing may take actions contrary to that goal if it perceives that China's sovereignty or national security is being seriously challenged.

Internal Dynamics

The Arab Spring uprisings stoked concern among Chinese leaders that similar unrest in China could undermine their rule, prompting Beijing to launch its harshest crackdown on dissent in at least

a decade. At the same time, apprehension about the global economy and the potential for domestic instability also appeared to increase in 2011, heightening Beijing's resistance to external pressure and suspicion of US intentions.

China's economic policies came under review, as leaders shifted their focus from fighting inflation to supporting growth because of concerns that the global consequences of debt problems in Europe would reduce external demand and Chinese GDP growth. Chinese GDP growth did slow down over the course of the year, albeit from levels that are the envy of most countries. Beijing continued a policy of permitting modest appreciation of the renminbi—which rose about 5 percent against the currencies of China's trading partners in 2011—although it remains substantially undervalued.

Politically, China's impending leadership succession in the fall of 2012 will reinforce Beijing's tendency toward a cautious and nationalist posture this year. Leaders will focus on the personnel changes expected at the Party Congress, and are unlikely to risk internal criticism by advocating bold policy changes or compromises on sovereignty issues.

People's Liberation Army (PLA) Modernization

China began its military modernization program in earnest in the late 1990s, after observing the long-range precision guided warfare demonstrated by Western powers in DESERT STORM and the Balkans, and determining that the nature of warfare had changed. It responded by investing in short- and medium-range ballistic missiles, modern naval platforms, improved air and air defense systems, counterspace capabilities, and intelligence, surveillance, and reconnaissance (ISR) to support over-the-horizon military operations. Since 2008, Beijing has shown a greater willingness to project military force to protect national interests, including Chinese maritime shipping as far away as the Middle East, and more recently to enforce sovereignty claims throughout the South China Sea. However, Taiwan remains the PLA's most critical potential mission and the PLA continues to build capabilities to deter it from declaring independence and to deter, delay or deny US interference in a potential cross-Strait conflict.

Many of Beijing's military capability goals have now been realized, resulting in impressive military might. Other goals remain longer term, but the PLA is receiving the funding and political support to transform the PLA into a fully modern force, capable of sustained operations in Asia and beyond.

Taiwan

The Taiwan Strait was characterized in 2011 by relative stability and generally positive developments, with China and Taiwan implementing economic cooperation initiatives and exploring agreements on a range of practical issues. President Ma Ying-jeou's reelection on 14 January suggests continued cross-strait rapprochement. Progress, however, probably will continue to be incremental because of differences over sensitive political issues, and because both sides have other domestic priorities. In the meantime, the military balance continues to shift in China's favor.

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Near East: Middle East and North Africa

Regional Implications of the Arab Spring

The Arab world is in a period of turmoil and change that will challenge the ability of the United States to influence events in the Middle East. This turmoil is driven by forces that will shape Arab politics for years, including a large youth population; economic grievances associated with persistent unemployment, inequality, and corruption; increased popular participation and renewed hope in effecting political change; and a greater ability by opposition groups to mobilize nonviolent resistance on a large scale. Meanwhile, the forces propelling change are confronting ruling elites; sectarian, ethnic, and tribal divisions; lack of experience with democracy; dependence on natural resource wealth; and regional power rivalries.

Arab countries are undergoing a variety of contested transitions. These political transitions are likely to be complex and protracted. States where authoritarian leaders have been toppled—Tunisia, Egypt, and Libya—will have to reconstruct their political systems via complex negotiations among competing factions. In Syria, regime intransigence and societal divisions are prolonging internal struggles and potentially turning domestic upheavals into regional crises.

The countries most affected by the Arab Spring—Egypt, Libya, Syria, and Tunisia—suffered setbacks to development, with economic activity stalling or declining. Tunisia faces challenges in boosting growth and employment, but economic conditions probably will improve modestly in the coming year. Oil production in Libya declined substantially, causing fluctuation in global oil prices, but increased production from other countries prevented serious market disruption and capped price increases. Saudi Arabia and Qatar have expanded social spending and food subsidies to address popular concerns, which will saddle them with large budget deficits if oil prices decline substantially.

Fluid political environments across the Arab world also offer openings for Islamic activists to participate more fully in political life. The strong showing by the Islamist al-Nahda party in the Tunisian elections and the success of Islamist parties in elections in Egypt and Morocco suggest that they might be the best organized competitors in diverse electoral contests. Although Islamist parties' long-term political prospects probably will depend on how they actually solve economic and social problems, their platforms and rhetoric suggest they will adopt a mix of pro-market and populist social welfare policies.

This new regional environment poses challenges for US strategic partnerships in the Arab world. However, we judge that Arab leaders will continue to cooperate with the United States on regional security to help check Iran's regional ambitions, and some will seek economic assistance.

Libya

Tripoli similarly faces profound challenges in the wake of the insurgents' defeat of Muammar al-Qadhafi, including navigating political obstacles, rebuilding the economy, and securing Libya. The Libyans have thus far met the deadlines contained in the roadmap they developed, and are on track to hold elections in June for the National Congress, which will then draft a constitution. To continue to achieve its milestones, however, the interim government needs to assert its authority without igniting

divisions among Libya's various stakeholders. It also needs to work toward disbanding and integrating the country's various militias. Libyan authorities will need continued international assistance to locate and secure what is left of the estimated 20,000 MANPADS Qadhafi's regime acquired since 1970. Central to Libya's rebuilding is also the recovery of its economy, particularly oil production and export capability. Over the longer term, restarting oil production and exports will be critical to Libya's growth and development.

Tunisia

In recent months, Tunisia has passed several milestones on its path toward democracy, the most significant being the 23 October Constituent Assembly elections, accepted both by international observers and the Tunisian public as fair, credible, and transparent. Out of the elections, a new governing coalition has emerged, led by the Islamist Nahda Party, in partnership with the secularist Ettakatol party and Congress for the Republic party. Hamadi Jebali, Nahda's Secretary General, assumed the post of Prime Minister on 14 December and rolled out his cabinet on 22 December.

Yemen

President Ali Abdallah Salih signed a GCC deal to transfer power and has recently departed Yemen to receive medical treatment in the United States. However, youth protestors, who sparked the movement for political reform, rejected the GCC deal for failing to call for Salih to step down immediately and be put on trial. An additional obstacle to completing a peaceful transfer of power is that the political actors involved in the negotiations do not represent all the key armed opposition groups. For example, Huthi rebels, southern secessionists, and antigovernment tribes—none of whom are part of the GCC negotiations—will likely try to strengthen their control locally if a political deal excludes them.

Ongoing instability in Yemen provides al-Qa'ida in the Arabian Peninsula (AQAP) with greater freedom to plan and conduct operations. AQAP has exploited the political unrest to adopt a more aggressive strategy in southern Yemen, and it continues to threaten US and Western diplomatic interests, particularly in Sanaa.

Lebanon

Lebanon has not experienced violence or widespread political unrest as a result of the events of the Arab Spring, but it suffers from sectarian tensions that make its stability fragile. The risk of violence remains because of: potential developments with the Special Tribunal for Lebanon (STL), which in June 2011 indicted Hizballah members for the assassination of former Prime Minister Rafik Hariri; the possibility that Syrian unrest might spread into Lebanon; threats to Hizballah's leadership, infrastructure, or weapons; and the potential for renewed conflict between Hizballah and Israel. Prime Minister Miqati was able to provide funding to the STL using funds from the Prime Minister's office, but Hizballah will continue trying to undermine the STL investigation. Hizballah's Secretary General in mid-November publicly warned that an Israeli attack on Iran would spark a regional war, signaling that Hizballah may retaliate for a strike on Iran.

Syria

We are now nearly a year into the unrest and antiregime protests in Syria, and the situation is unlikely to be resolved quickly. Both the regime and the opposition are determined to prevail, and neither side appears willing to compromise on the key issue of President Bashar al-Asad remaining in power.

Regional criticism of Asad increased markedly over the last several months, with a growing number of states taking measures to support the opposition. The Arab League's decision on 12 November 2011 to suspend Syria's membership and impose sanctions further galvanized international opposition to Asad. Syria's opposition has taken steps to organize and some elements have taken up arms. The shift toward violent tactics will intensify pressure on the regime's security and military assets, and it risks alienating Syrians opposed to the violent overthrow of the regime, dividing the political opposition, and increasing widespread sectarian tension.

Arab Spring and the Global Jihadist Movement

The unrest potentially provides terrorists inspired by the global jihadist movement more operating space, as security services focus more on internal security and, in some cases, undergo transformations in make-up and orientation.

- Bin Ladin's death, combined with other leadership losses, probably will distract the group from exploiting the unrest in the short run. Al-Qa'ida leaders likely assess that gaining traction in countries undergoing transitions could prepare the way for future operations against Western and local targets, but they probably will struggle to keep pace with events. Rhetoric from Ayman al-Zawahiri, bin Ladin's successor, has not resonated with the populations of countries experiencing protests. Regional groups, however, may move more quickly to exploit opportunities.

- If, over the longer term, governments take real steps to address public demands for political participation and democratic institutions—and remain committed to CT efforts—we judge that core al-Qa'ida and the global jihadist movement will experience a strategic setback. Al-Qa'ida probably will find it difficult to compete for local support with groups like the Muslim Brotherhood that participate in the political process, provide social services, and advocate religious values. Nonviolent, pro-democracy demonstrations challenge al-Qa'ida's violent jihadist ideology and might yield increased political power for secular or moderate Islamist parties.

- However, prolonged instability or unmet promises of reform would give al-Qa'ida, its affiliates, and its allies more time to establish networks, gain support, and potentially engage in operations, probably with less scrutiny from local security services. Ongoing unrest most likely would exacerbate public frustration, erosion of state power, and economic woes—conditions that al-Qa'ida would work to exploit.

The ongoing turmoil probably will cause at least a temporary setback to CT efforts and might prove a longer-term impediment, if successor governments view violent Sunni extremism as a less immediate threat than did previous regimes. The prospects for cooperation will be further complicated if senior security officials who have cooperated with US and allied services lose their positions.

Iran

Iran's leaders are confronting continued domestic political problems, a stalling economy, and an uncertain regional dynamic as the effects of the Arab Spring unfold. Elite infighting has reached new levels, as the rift grows between Supreme Leader Khamenei and President Ahmadi-Nejad. The regime has intensified attacks on prominent government officials and their families, as well, including former President Ali Hashemi-Rafsanjani. The infighting has worsened in the runup to the legislative elections in March and the presidential election in 2013, especially in the wake of Khamenei's musings in October 2011 that the popularly elected president could be replaced by a prime minister chosen by the legislature.

Iran's economy is weighed down by international sanctions. The new US sanctions will have a greater impact on Iran than previous US designations because the Central Bank of Iran (CBI) is more important to Iran's international trade than any of the previously designated Iranian banks. The CBI has handled a greater volume of foreign bank transactions than other designated banks and receives the revenue for the roughly 70 percent of Iranian oil sold by the National Iranian Oil Company.

Despite this, Iran's economic difficulties probably will not jeopardize the regime, absent a sudden and sustained fall in oil prices or a sudden domestic crisis that disrupts oil exports. In a rare public indication of the sanctions' impact, Ahmadi-Nejad said in a speech to the legislature in early November that Iran is facing the "heaviest economic onslaught" in history, a sentiment echoed by the head of the CBI.

In its efforts to spread its influence externally, Iran continues to support proxies and surrogates abroad, and it has sought to exploit the Arab Spring but has reaped limited benefits, thus far. Its biggest regional concern is Syria because regime change would be a major strategic loss for Tehran. In Iraq, it probably will continue efforts to strengthen ties to Baghdad and the Kurdistan Regional Government. In Afghanistan, Iran is attempting to undermine any strategic partnership between the United States and Afghanistan.

Iraq

The Iraqi Government is positioned to keep violence near current levels through 2012, although periodic spikes are likely. Iraqi Security Forces (ISF) are capable of planning and executing security operations, and Iraqi counterterrorism forces have demonstrated they are capable of targeting remaining terrorists and insurgents. However, al-Qa'ida in Iraq (AQI)—despite its weakened capabilities—remains capable of high-profile attacks, and some Shia militant groups will continue targeting US interests, including diplomatic personnel.

Despite slow progress on political goals, Iraqi citizens are pursuing change through the political process, rather than violence. Prime Minister Maliki's relations with Sunni and Kurdish leaders, currently under strain due to his accusations against senior Sunni officials, will be a critical factor in maintaining political stability.

On the economic front, despite recent growth, Baghdad needs to improve its financial systems and institutions, diversify its economy, improve transparency and delivery of essential services, and rebuild infrastructure to satisfy public expectations and attract foreign capital. Oil revenues were

considerably higher in 2011 than 2010, due to a combination of increased output and higher oil prices, and sustaining those gains is important. Iraq's poor employment rates—as much as half of the workforce is unemployed or underemployed, according to United Nations estimates—illustrate the difficulties of transitioning to a private sector economy. If unaddressed, high unemployment could, over the long term, be a source of domestic unrest.

Africa

Africa faces a broad range of challenges in 2012. Sub-Saharan Africa collectively falls at the bottom of almost all economic and social indicators, and, although the overall continent is seeing economic progress, Africa remains vulnerable to political crises, democratic backsliding, and natural disasters. We assess that violence, corruption, and terrorism are likely to plague Africa in areas key to US interests. Unresolved discord between Sudan and South Sudan, continued fighting in Somalia, extremist attacks in Nigeria, and ongoing friction in the Great Lakes region highlight unstable conditions on the continent.

Sudan and South Sudan

Sudan and South Sudan in 2012 will face political uncertainty and potential instability. Several key bilateral issues were left unresolved prior to South Sudan's independence in July 2011, including the disposition of Sudan's debt burden, the status of the disputed province of Abyei, and the mechanisms of sharing oil wealth. Although we assess that neither side wants to return to war, we anticipate episodes of violence—an unintentional spark could escalate quickly.

President Bashir and the National Congress Party (NCP) are confronting a range of challenges, including growing public dissatisfaction over economic decline and insurgencies on Sudan's southern and western borders. Sudanese economic conditions have deteriorated since South Sudan's independence—Khartoum lost 75 percent of its oil reserves along with 20 percent of its population; and the country is facing a decline in economic growth, projected hard currency shortages, high inflation, and increasing prices on staple goods, all of which threaten political stability and fuel opposition to Bashir and the NCP. We assess Khartoum is likely to use all available means to prevent protests from escalating and will pursue a military response to provocations by Sudan People's Liberation Movement-North (SPLM-N) rebels in South Kordofan and Blue Nile States.

We assess the conflict in Sudan's western Darfur region will simmer as a low level insurgency through 2012. Lengthy talks in Doha concluded in 2011, but resulted in a peace agreement with only one rebel group; significant Darfur rebel groups remain outside the peace process. Khartoum is concerned about ties between some Darfur rebel groups and the SPLM-N and about Justice and Equality Movement (JEM) rebels, who returned to Darfur from Libya in late 2011.

South Sudan in 2012 will face serious challenges that threaten to destabilize its fragile, untested, and poorly resourced government. Festering ethnic disputes are likely to undermine national cohesion, and the southern government will struggle to provide security, manage rampant corruption, and provide basic services. Anti-Juba rebel militia groups active in the areas along South Sudan's northern border are undermining stability and challenging Juba's ability to maintain security. We

assess the ruling Sudan People's Liberation Movement (SPLM) will continue to turn to the international community for assistance.

Somalia

After two decades without a stable, central governing authority, Somalia is the quintessential example of a failed state. The mandate of the current Transitional Federal Government (TFG) expires in August 2012, and we see few signs that Somalia will escape the cycle of weak governance. The TFG and its successor almost certainly will be bogged down with political infighting and corruption that impede efforts to improve security, provide basic services, or gain popular legitimacy. The TFG is certain to face persistent attacks from al-Shabaab and remains reliant on the current 9,700 peacekeepers from the African Union Mission in Somalia (AMISOM) to retain control over Mogadishu.

Nigeria

Nigeria is critical to US interests—it is Africa's most populous nation and the source of 8 percent of total US oil imports—but it faces three key challenges in 2012: (1) healing political wounds from the April 2011 presidential election, which triggered rioting and hundreds of deaths in the largely Muslim north, after the victory of Goodluck Jonathan, a Christian and a southerner; (2) managing the chronic unrest in the oil-rich Niger Delta region; a 2009 truce between militants and the government appears to be holding, but widespread criminality and corruption are undermining both local development and oil production; and (3) most pressing, dealing with the Islamic extremist group popularly known as Boko Haram. The group carries out near-daily ambushes, assassinations, and raids in the northeast. It carried out two high-profile suicide attacks in the capital in 2011, hitting the national police headquarters in June and the UN building in August. Its attacks on churches in northern Nigeria have spurred retaliatory attacks on mosques in the South, and prompted thousands of Muslims to flee southern Nigeria for safety in the North. There are also fears that Boko Haram—elements of which have engaged with al-Qa'ida in the Islamic Maghreb (AQIM)—is interested in hitting Western targets, such as the US Embassy and hotels frequented by Westerners.

Central Africa's Great Lakes Region

The Great Lakes region, despite gains in peace and security in the past decade, remains vulnerable to the chronic pressures of weak governance, ethnic cleavages, and active rebel groups. For example, volatility is a risk for Burundi, which faces continued political violence and extrajudicial killings. The Democratic Republic of the Congo (DRC) is still struggling to recover from the trauma of foreign invasion and civil war from 1996-2003, and the government has little control over large swaths of the country. Much of Congo's stability depends on UN peacekeepers, at an annual cost to the international community of over $1 billion. Many Congolese are discontented with the government's failure to improve the economy and rein in rebel groups, undisciplined soldiers, and ethnic militia that operate with impunity in the east. Much of the Congolese Army—poorly led and rarely paid—will continue to be a predator to, rather than a protector of, the population. The lack of credible presidential and legislative elections in the DRC in November 2011 demonstrates that significant challenges remain as President Kabila begins his second term.

Russia and Eurasia

Russia

The prospect of another Putin presidency has sparked frustration and anger in some circles, evidenced by the protests following the December 2011 Duma elections, as well as debate over its impact on Russia's development. We assess Putin's return is likely to mean more continuity than change in Russian domestic politics and foreign policy, at least during the next year.

On the domestic political front, Putin is most likely to preserve the political/economic system rather than be an agent of reform or liberalization, despite looming problems that will test the sustainability of Russia's "managed democracy" and crony capitalism. Putin will likely focus on restoring elite cohesion, protecting elite assets, and securing new opportunities for elite enrichment. At the same time he will seek a level of prosperity that placates the masses, while managing growing demands for change, which might prove increasingly difficult, given Russia's moderate growth rates.

Foreign Policy

In foreign policy, Putin's return is unlikely to bring immediate, substantive reversals in Russia's approach to the United States, but advancement of the bilateral relationship will prove increasingly challenging. Putin has acknowledged that the "reset" with Washington has yielded benefits for Russia, suggesting he sees value in preserving a cooperative relationship. Nevertheless, Putin's instinctive distrust of US intentions and his transactional approach towards relations probably will make him more likely to confront Washington over policy differences.

Maintaining the positive momentum of the reset will also be harder because several areas of mutual interest, such as the New START agreement and cooperation on Afghanistan, have already been addressed. Russia continues to view the reset largely as a US initiative and believes that the onus is on the United States to demonstrate flexibility and make compromises to advance the relationship.

Missile defense will remain a sensitive issue for the Kremlin, and Moscow will look to the US and our NATO partners for binding guarantees that any system will not be directed at Russia. Continuing concerns about US missile defense plans will reinforce Russia's reluctance to engage in further nuclear arms reductions. Moscow is also not likely to be particularly helpful in dealing with Syria or with Iran and its nuclear program. Russia is unlikely to support additional sanctions against Iran, which it worries are aimed at regime change, and argues that confidence-building measures and an incremental system of rewards are the best way to persuade Iran to increase cooperation with the International Atomic Energy Agency. In the case of Syria, Moscow is troubled by the Libyan precedent and believes the West is pursuing a policy of regime change that Moscow assesses will destabilize the region. The Kremlin also will remain suspicious of US cooperation with the states of the former Soviet Union.

Assessing the Russian Military

Russian military forces, both nuclear and conventional, support deterrence and enhance Moscow's geo-political clout. The Kremlin since late 2008 has embraced a wide-ranging military reform and modernization program designed to field a smaller, more mobile, better-trained, and high-tech force over the next decade. This plan represents a radical break with historical Soviet approaches to manpower, force structure, and training. The initial phases, mainly focused on force reorganization and cuts in the mobilization base and officer corps, have been largely implemented and are being institutionalized. The ground forces alone have reduced about 60 percent of armor and infantry battalions since 2008, while the Ministry of Defense cut about 135,000 officer positions, many at field grade.

Moscow is now setting its sights on long-term challenges of rearmament and professionalization. In 2010, Medvedev and Putin approved a 10-year procurement plan to replace Soviet-era hardware and bolster deterrence with a balanced set of modern conventional, asymmetric, and nuclear capabilities. However, funding, bureaucratic, and cultural hurdles—coupled with the challenge of reinvigorating a military industrial base that deteriorated for more than a decade after the Soviet collapse—will complicate Russian efforts.

The reform and modernization programs will yield improvements that will allow the Russian military to more rapidly defeat its smaller neighbors and remain the dominant military force in the post-Soviet space, but will not—and are not intended to—enable Moscow to conduct sustained offensive operations against NATO collectively. In addition, the steep decline in conventional capabilities since the collapse of the Soviet Union has compelled Moscow to invest significant capital to modernize its conventional forces. At least until Russia's high precision conventional arms achieve practical operational utility, Moscow will embrace nuclear deterrence as the focal point of its defense planning, and it still views its nuclear forces as critical for ensuring Russian sovereignty and relevance on the world stage, and for offsetting its military weaknesses vis-à-vis potential opponents with stronger militaries.

Central Asia and the Caucasus

The unresolved conflicts of the Caucasus and the fragility of some Central Asian states represent the most likely flashpoints in the Eurasia region. Moscow's occupation and military presence in and expanded political-economic ties to **Georgia**'s separatist regions of South Ossetia and Abkhazia account for some of the tensions. Meanwhile, Tbilisi charged Russia with complicity in a series of bombings in Georgia in 2010 and 2011, while the Kremlin has been suspicious about Georgian engagement with ethnic groups in Russia's North Caucasus. Georgia's new constitution strengthens the office of the Prime Minister after the 2013 presidential election, leading some to expect that President Saakashvili may seek to stay in power by serving as Prime Minister, which could impact the prospect for reducing tensions.

The Nagorno-Karabakh region is another potential flashpoint. Heightened rhetoric, distrust on both sides, and recurring violence along the Line of Contact increase the risk of miscalculations that could escalate the situation with little warning.

Central Asian leaders are concerned about a Central Asian version of the Arab Spring, and have implemented measures to buttress their control and disrupt potential social mobilization, rather than implementing liberalizing reforms. The overthrow of the Kyrgyzstani Government in April 2010 and the subsequent ethnic violence in the country's south—the unrest in June 2010 left over 400 dead and led to a brief exodus of ethnic Uzbeks to **Kyrgyzstan**'s border with **Uzbekistan**—show that instability can come with little warning in parts of Central Asia. Kyrgyzstan successfully held a peaceful presidential election in October 2011, but Kyrgyz authorities remain concerned about the potential for renewed violence in the country's south, and Uzbekistan's government has set up temporary shelters in the event of violence and another wave of refugees.

Central Asia's ability to cope with violent extremist organizations—especially militants based in Pakistan and Afghanistan—represents an additional focus, particularly in light of the planned US withdrawal from Afghanistan in 2014. The region's violent extremism is also a growing security concern for Moscow. In 2011, **Kazakhstan** experienced labor unrest and minor clashes with militants, including the country's first-ever suicide attack in May. **Tajikistan** is particularly important due to its extensive border with Afghanistan and its history of internal and cross-border violence. In 2010, Dushanbe had to contend with small groups of militants, an indicator that Tajikistan is also potentially vulnerable.

Ukraine and Belarus

Developments in Ukraine and Belarus, while not threatening to US national security, present challenges to important US interests in the region. Democracy in **Ukraine** is increasingly under siege as Kyiv drifts closer toward authoritarianism under President Yanukovych. The selective prosecution of members of the political opposition, including former Prime Minister and Yanukovych rival Yuliya Tymoshenko, on politically-motivated legal charges, government use of administrative levers to stifle independent media, and attempts to manipulate election laws ahead of this October's parliamentary elections are all indicative of this trend.

In **Belarus**, the systemic economic crisis presents Belarusian President Lukashenko with the strongest challenge yet to his hold on power. Continuing support among significant segments of Belarusian society, a loyal and responsive security apparatus, a wary population reluctant to take political action against the regime, and occasional Russian support decrease the near-term likelihood of regime change.

Europe

The Balkans

Deep ethnic and political divides in the Western Balkans pose a challenge to stability in Europe in 2012. Protracted instability in **Kosovo**—especially Serb-majority northern Kosovo—and lack of progress with the EU-facilitated Serbia-Kosovo dialogue remain sources of tension requiring Western diplomatic and security engagement. Inter-ethnic strains and dysfunctional state structures also threaten stability in **Bosnia-Herzegovina** (BiH).

Northern Kosovo is particularly crucial. Clashes between NATO-led Kosovo Force (KFOR) soldiers and local Serbs in late 2011—in which over 60 KFOR soldiers were injured, two by gunshot—underscore ethnic Serbs' commitment to violently resist KFOR attempts to remove roadblocks in the north. The impasse has settled into an uneasy stalemate; Kosovo Serbs are allowing KFOR limited ground movement, but refusing to allow EU Rule of Law Mission (EULEX) vehicles through the roadblocks and thwarting KFOR efforts to permanently remove roadblocks or shut down bypass roads.

More than 80 countries, including 22 of 27 EU members, have recognized Kosovo's independence, but in the coming years it will remain a fragile state, dependent on the international community for economic, security, and development assistance. As we saw in 2011, violence can erupt with little to no warning, especially in the northern municipalities. We assess that local forces cannot be relied upon to assume KFOR's key tasks—fixed-site security, riot control, and border management—at least until Belgrade and Pristina normalize relations. The Kosovo Security Force (KSF) has nearly reached its authorized strength of 2,500 lightly armed personnel but faces recruiting, funding, and training challenges. KSF will likely decide to transform itself into an armed force when its mandate comes up for review in June 2013. We assess that the Kosovo Serbs and Belgrade will continue to oppose any effort to expand Pristina's control over northern Kosovo, but in different ways. Belgrade will politically limit its response to sharp rhetoric condemning Pristina's efforts, while Kosovo Serbs will likely employ familiar tactics, such as roadblocks and street protests that pose a risk of sparking violence.

Turkey and the Kurdish Issue

A significant uptick in violence since June 2011 by the Turkish Kurdish terrorist group Kongra-Gel (KGK/formerly PKK) complicated Turkish government efforts—already faltering in the face of mounting nationalist sentiment—to forge a political solution to the longstanding conflict. The KGK attack of 19 October 2011 that killed 24 Turkish security forces was the deadliest incident since 1993 and the fourth largest KGK attack ever. Public outcry over the violence forced Prime Minister Erdogan and his ruling Justice and Development Party (AKP) to place increased emphasis on military operations against the KGK.

Latin America and the Caribbean

Regional Dynamics

Latin America is making progress in sustaining economic growth and deepening democratic principles. Weathering some of the worst effects of the global recession, Chile, Peru, Brazil, Colombia, Mexico, and Panama have earned investment-grade status. Competitive, democratic elections are increasingly the standard in most of the region. However, populist, authoritarian leaders in Venezuela, Ecuador, Bolivia, and Nicaragua are undercutting representative democracy and consolidating power in their executives.

The drug threat to the United States also emanates primarily from the Western Hemisphere, where rising drug violence and corruption are undermining stability and the rule of law in some

countries. The majority of US-consumed drugs are produced in Mexico, Colombia, Canada, and the United States. The drug trade also contributes to the fact that Central American governments, especially Honduras, El Salvador, and Guatemala, are coping with some of the highest violent crime and homicide rates in the world. In addition, weak institutions and corrupt officials in these countries have fostered a permissive environment for gang and criminal activity to thrive.

Efforts to shape effective regional integration organizations continue with uneven results. In December 2011, Caracas hosted the inaugural Community of Latin American and Caribbean States (CELAC) summit, excluding the United States and Canada. The Venezuela-led Bolivarian Alliance for the Americas (ALBA)—created in part to spread Chavez's influence in the region—is only muddling through. The Union of South American Nations (UNASUR) has attempted to take on some multilateral issues, provide a forum to coordinate positions, and calm regional tensions. Nonetheless, enthusiasm for UNASUR likely will outpace the institution's ability to develop specialized capabilities and programs.

Latin America increasingly has accommodated outside actors seeking to establish or deepen relations, at times to attenuate US influence. Ties with Tehran offer some regional governments a means of staking an independent position on Iran—thereby mitigating its isolation—while also attempting to extract Iranian financial aid and investment for economic and social projects. Russia has established political and trade relations with most countries in the region. China has dramatically increased its economic outreach to Latin America, and during the last few years has become the largest trade partner to several of the region's larger economies, including Brazil, Chile, and Peru.

Mexico

Mexico's government remains committed to fighting the country's drug cartels and enacting reforms aimed at strengthening the rule of law. The government has scored important takedowns of cartel leaders, but the implementation of its ambitious reform agenda is a slow process requiring legislative action at the federal and state levels.

During Calderon's presidency, Mexican Federal police and military operations have degraded several cartels, caused some to split into factions, and disrupted some of their criminal operations. Since December 2009, military and police units have killed or captured five senior cartel leaders, and Mexican officials report that 23 of the 37 "most wanted" traffickers have been arrested or killed by authorities. In the meantime, criminal violence has increased sharply since 2007. Drug-related homicides rose to over 15,000 in 2010 and stood at 12,903 as of October 1, 2011, with sharp upticks in some states and declines in others, such as Chihuahua, during the last year. The vast majority of these homicides are the result of trafficker-on-trafficker violence.

The Mexican cartels have a presence in the United States, but we are not likely to see the level of violence that is plaguing Mexico spill across the US border. We assess that traffickers are wary of more effective law enforcement in the United States. Moreover, the factor that drives most of the bloodshed in Mexico—competition for control of trafficking routes and networks of corrupt officials—is not widely applicable to the small retail drug trafficking activities on the US side of the border. US officials and citizens in Mexico are at increased risk because of generalized violence.

Venezuela

Venezuelan politics will be highly competitive and polarized over the next year. At stake in the October 2012 presidential election is whether essential characteristics of President Chavez's 12 years in power—the weakening of democratic institutions and representative democracy and virulent anti-US foreign policy—persist and even deepen or begin to reverse. Chavez announced that he is cancer-free, but there are still doubts about his health; and there is no other leader who can match his charisma, force of personality, or ability to manipulate politics and policy should he be unable to run again. In addition, his failure to groom others to lead his United Socialist Party of Venezuela (PSUV) means that any successor would lack his stature. Once the campaign season begins in February 2012, the electorate will be seeking solutions for the country's 25 percent inflation, widespread food and energy shortages, and soaring crime and homicide rates.

Cuba

Cuban President Raul Castro has begun a delicate, cautious process of reform designed to revive the island's flagging economy without loosening political control. With a weakening Hugo Chavez as their primary patron, Cuba's leaders are desperately seeking to diversify their foreign investment partners and increase their access to hard currency and foreign credit. Wary of instability, authorities are only gradually implementing economic reforms announced last year. For example, the delay in the planned layoff of a million state workers reflects the sensitivity of the Castro regime as it observes uprisings elsewhere in the world.

Cuban leaders are also concerned that economic reform will increase pressure on them for a political opening and greater individual rights. The stiff prison term imposed on USAID subcontractor Alan Gross for facilitating uncensored internet connectivity demonstrates the Castro regime's fear of social media. Indeed, harsh government repression of peaceful protests and an upswing in short-term arrests of dissidents suggest economic changes will not be coupled with political changes.

At this writing, we anticipate that the 28 January 2012 Communist Party conference will emphasize the importance of technocratic competence, rather than party membership, underscoring Castro's stated focus on improving government bureaucracy and expertise. There is no indication that Castro's efforts, including his stated interest in laying the groundwork for a generational transition in leadership, will loosen the Party's grip on power.

Haiti

President Martelly was inaugurated in May 2011. Political disagreements between the legislative and executive branches impeded the confirmation of a prime minister and stalled the government's ability to make decisions for nearly five months. In October, the new government, headed by Prime Minister Garry Conille, was sworn in. New to governance, President Martelly is still learning how to navigate the political arena and has made several missteps since taking office. These decisions have further strained his relations with the opposition-led Parliament and have at times caused friction with international partners. That said, since taking office, the Martelly administration has made progress on several fronts, including in the rule of law, education, housing, and infrastructure, and as

such has demonstrated its commitment to improving the well being of the Haitian people and helping the country achieve economic growth and development.

Although the lack of a duly functioning government for a large part of 2011 affected recovery and reconstruction efforts, it did not halt all activity. Almost two-thirds of the estimated 1.5 million Haitians displaced by the earthquake have left tent encampments and over half of the estimated 10 million cubic meters of rubble created by the earthquake has been removed. The Haitian-led international campaign to prevent and treat cholera mitigated the impact of the outbreak, bringing the case mortality rate below the international standard of 1 percent. The Haitian economy is slowly improving and the macroeconomic situation is stabilizing. We judge that, given these improving conditions and the Haitians' recognition of the standing US policy of rapid repatriation of migrants at sea, there is little current threat of a mass migration from Haiti.

Significant State and Nonstate Intelligence Threats

Transnational Organized Crime

Transnational organized crime (TOC) is an abiding threat to US economic and national security interests, and we are concerned about how this threat might evolve in the future. We are aware of the potential for criminal service providers to play an important role in proliferating nuclear-applicable materials and facilitating terrorism. In addition, the growing reach of TOC networks is pushing them to form strategic alliances with state leaders and foreign intelligence service personnel.

- The increasingly close link between Russian and Eurasian organized crime and oligarchs enhances the ability of state or state-allied actors to undermine competition in gas, oil, aluminum, and precious metals markets, potentially threatening US national and economic security.

As global trade shifts to emerging markets—many plagued by high levels of corruption and criminal activity—US and western companies' competiveness is being eroded by overseas corrupt business practices.

- In Russia, pervasive corruption augmented by powerful criminal organizations probably drove public perceptions and led to Russia being ranked with sub-Saharan Africa on Transparency International's Corruption Perceptions Index in 2010.

Transnational organized criminal groups are also weakening stability and undermining rule of law in some emerging democracies and areas of strategic importance to the United States.

- Mexican drug cartels are responsible for high levels of violence and corruption in Mexico and contribute to instability in Central America, while the drug trade continues to fuel the Revolutionary Armed Forces insurgency in Colombia.

In addition, human smuggling and trafficking are transnational organized criminal activities that are increasing due to globalization. Kidnapping for ransom is increasing in many regions worldwide

and generates new and deep income streams for transnational criminal organizations (particularly in Mexico) and terrorist networks.

- Those who smuggle humans illegally have access to sophisticated, forged travel papers and the ability to constantly change their smuggling routes—routes that may span multiple continents before reaching their destinations. Smugglers undermine state sovereignty and sometimes facilitate the terrorist threat. For instance in September 2011, three Pakistanis pled guilty to conspiracy to provide materiel to Tehrik-e Taliban (TTP) by agreeing to smuggle a person they believed to be a member of a terrorist organization across US borders.

- As pressure is applied to their traditional illicit businesses, members of transnational criminal organizations are moving into human trafficking because it is a lower risk, higher profit operation, according to a 2010 UN Office on Drugs and Crime review. Human traffickers often use the same document forgers, corrupt officials, and illicit travel experts to exploit their victims by force, increasing human suffering around the globe. Although the nature of the problem frustrates collection of reliable statistics, most countries are affected by human trafficking, serving as source, transit, or destination points. The International Labor Organization estimates human trafficking for the purposes of sexual and/or economic exploitation to be a $20 billion business.

- Terrorists and insurgents will increasingly turn to crime and criminal networks for funding and logistics, in part because of US and Western success in attacking other sources of their funding. Criminal connections and activities of both Hizballah and AQIM illustrate this trend.

Space

In 2011, the Department of Defense and Office of the Director of National Intelligence published the first joint National Security Space Strategy. It emphasized that two key trends challenge our use of space—the congested and contested nature of the space environment.

Growing global use of space—along with the effects of spacecraft structural failures, accidents involving space systems, and debris-producing, destructive antisatellite tests—has increased congestion. To meet growing demand for radiofrequency bandwidth, more transponders are placed in service, raising the probability of interference. If space congestion grows unchecked, it will increase the probability of mishaps and contribute to destabilization of the space environment.

Space is also increasingly contested in all orbits. Today, space systems and their supporting infrastructures face a range of man-made threats that may deny, degrade, deceive, disrupt, or destroy assets. Potential adversaries are seeking to exploit perceived space vulnerabilities. As more nations and nonstate actors develop counterspace capabilities during the next decade, threats to US space systems and challenges to the stability and security of the space environment will increase. Irresponsible acts against space systems could also have implications beyond the space domain, disrupting worldwide services on which civil and commercial sectors depend.

Economics

New Economic Shocks and Unresolved Financial Strains

The fledgling economic recovery from the global recession of 2008-09 was challenged in 2011 by a series of shocks embroiling countries and regions important to the global economy and leading to heightened volatility in financial and commodity markets. Shocks included the Arab Spring uprisings, which triggered widespread disruptions to business activity and eventually changes to regimes; the Japanese earthquake and tsunami that caused a nuclear tragedy and painful, significant disruptions in manufacturing supply chains; and European leaders' inability to restore financial market confidence in the creditworthiness of a number of debt-troubled euro-zone countries, putting the survival of the common currency and the stability of the European economy in jeopardy. Additional challenges facing euro-zone recovery include continued high unemployment and a tightening of credit in 2012.

Elsewhere, numerous governments were challenged by rising food and energy prices that surged in the first half of the year and ended up averaging more than 25 percent higher than in 2010. In an atmosphere of growing pessimism about the near-term prospects for global economic activity and corporate profitability, as of late in 2011 equity markets for the year were down sharply in almost every major financial center, with 15 to 25 percent declines in Germany, France, Japan, China, India, Brazil, and Turkey. Far greater losses were suffered in the stock markets of the most vulnerable countries, such as Egypt and Greece, which were down almost 50 percent. In January 2011 the IMF projected global economic growth would slow from the 5.1 percent growth achieved in 2010 to 4.4 percent in 2011 and 4.5 percent in 2012, but by September it had lowered its projections to 4 percent growth in both 2011 and 2012. Many forecasters were reducing growth estimates during the final months of 2011, and the majority predicted an outright, though likely brief, recession for the euro zone and several emerging market countries.

Energy

Oil prices ended the year well below the highs reached just after Libyan oil output ceased in March. From time to time during 2011, market participants voiced concerns about supply disruptions from other potential shocks, for example one that could originate in Iran, but these worries did not overshadow the emerging sentiment that a euro-zone recession and associated deceleration of global growth could curb demand. On balance, by year-end the main oil price benchmarks were up about 20 percent from the 2010 average, but roughly 15 percent below the earlier peaks in 2011.

Although the most promising advances in global energy production have been in renewable energy, fossil fuels continued to dominate the global energy mix and the political discussion in 2011. West Texas Intermediate oil prices (the US benchmark) have remained above $70 per barrel for two years and averaged $95 per barrel in 2011, providing a favorable price environment for innovations in fossil fuel extraction as well as alternative energy sources. Oil and gas production gains from US shale formations, Canadian oil sands, and offshore deep water wells in Brazil are examples of energy output driven by high oil prices and technology advances, such as horizontal drilling, hydraulic

fracturing, and deep water exploitation. The impact of Japan's tsunami, meanwhile, has clouded the prospects for low-carbon-emissions nuclear power. Germany has pledged to phase out nuclear power over 11 years—nearly a quarter of its current electricity production—and approvals and construction of additional nuclear facilities worldwide are likely to slow under increased scrutiny of safety procedures.

Water Security

During the next 10 years, water problems will contribute to instability in states important to US national security interests. Water shortages, poor water quality, and floods, by themselves, are unlikely to result in state failure. However, water problems combined with poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions contribute to social disruptions that can result in state failure.

Depletion of groundwater supplies in some agricultural areas—caused by poor management—will pose a risk to both national and global food markets. Depleted and degraded groundwater can threaten food security and thereby risk internal, social disruption, which, in turn, can lead to political disruption. When water available for agriculture is insufficient, agricultural workers lose their jobs and fewer crops are grown. As a result, there is a strong correlation between water available for agriculture and national GDP in countries with high levels of agricultural employment.

Now and for the foreseeable future, water shortages and pollution probably will negatively affect the economic performance of important US trading partners. Economic output will suffer if countries do not have sufficient clean water supplies to generate electrical power or to maintain and expand manufacturing and resource extraction. Hydropower is an important source of electricity in developing countries—more than 15 developing countries generate 80 percent or more of their electrical power from hydropower—and demand for water to support all forms of electricity production and industrial processes is increasing.

Water-related state-on-state conflict, however, is unlikely during the next 10 years. Historically, water tensions have led to more water-sharing agreements than violent conflicts. As water shortages become more acute beyond the next 10 years, water in shared basins will increasingly be used as leverage; the use of water as a weapon or to further terrorist objectives also will become more likely.

Improved water management—involving, for example, pricing, allocations, and "virtual water" trade—and investments in water-related sectors (such as, agriculture, power, and water treatment) will afford the best solutions for water problems. Because agriculture uses approximately 70 percent of the global fresh water supply, the greatest potential for relief from water scarcity will be through mechanisms and technology that increase water use efficiency and the ability to transfer water among sectors.

Health Threats and Natural Disasters

The past year illustrates, again, how health threats and natural disasters can not only kill and sicken thousands of people and destroy homes and livelihoods, but also challenge—and potentially destabilize—governments, as they attempt to respond.

- Although Tokyo responded adequately in the immediate aftermath of Japan's largest earthquake, the triple disaster contributed to Prime Minister Kan's resignation, and led then-Finance Minister Noda, now the Prime Minister, to admit that the government's inability to lead raised distrust of lawmakers and government to levels not previously seen.

- An outbreak of Escherichia coli (E. coli) associated with contaminated sprouts infected 3,500 people in Germany between May and July, produced life threatening complications in 855, and resulted in 53 deaths. The inability to quickly identify the source led to loss of life and caused economic losses estimated at $1 billion.

Although we can say with near certainty that new outbreaks of disease and catastrophic natural disasters will occur during the next several years, we cannot predict their timing, locations, causes, or severity. We assess the international community needs to improve surveillance, early warning, and response capabilities for these events, and, by doing so, will enhance its ability to respond to manmade disasters. This can be accomplished in part by member state implementation of the World Health Organization's International Health Regulations (2005). The key challenge is that fiscal austerity measures in many countries might so restrict funding that preparedness declines.

Conclusion

The issues that we consider here confront responsible citizens and their governments everywhere. The Intelligence Community is fully committed to arming our decisionmakers—policymakers, warfighters, and law enforcement officers—with the best intelligence and analytic insight we can provide. This is necessary to enable them to take the actions and make the decisions that will protect American lives and American interests, here and around the world.

Chairman FEINSTEIN. Thank you very much, Director Clapper. We will begin with 10 minutes and the early-bird rule.

As I mentioned in my opening statement, I think 2012 is going to be a critical year for convincing or preventing Iran from developing a nuclear weapon. In Sunday's New York Times magazine, Israeli journalist Ronen Bergman wrote, "After speaking with many senior Israeli leaders and chiefs of the military, and the intelligence, I have come to believe that Israel will indeed strike Iran in 2012."

How do you assess that likelihood and the response from Iran, if that happens, that might be forthcoming?

Director CLAPPER. Well, our hope is that the sanctions, particularly those which have been recently implemented, would have the effect of inducing a change in the Iranian policy towards their apparent pursuit of a nuclear capability. Obviously, this is a very sensitive issue right now. We're doing a lot with the Israelis, working together with them. And of course for them, this is, as they have characterized, an existential threat. But this is an area that we are very, very concerned about.

And I would be pleased, because of the sensitivities, to discuss that in greater detail in a closed session.

Chairman FEINSTEIN. Well, the Vice Chairman and I have just met this past week with the Director of Mossad, so that is a classified meeting, but we do know that. I think—and let me ask this of you, Director Petraeus—that the world has to know what's happening. It's one of the reasons I believe that the IAEA, when they go in—well, they're in Pakistan now, but when they go into Fordo—really must make transparent and public what they find there, what they see there, so that we know for sure what is happening.

I think the world is entitled to that, particularly when you have a situation where one country views this as an existential threat. They believe it's their survival. They are determined not to let it happen. To really get the correct picture on what is happening, I think it's important. Do you have a view on this?

Director PETRAEUS. I do, Madam Chairman. If I could up front, let me also echo Director Clapper's remarks about thanking you and the Vice Chairman for your kind words on the Members of the Intelligence Committee on the accomplishments of this past year, some of which obviously were of enormous significance, and thanks to both of you, as well, for your comments on the Agency efforts to keep the Committee fully and currently informed. We've worked very hard to be accessible to you; I have, personally, my deputy and the staff, and we think that the facts reflect that.

We have worked hard, also, to shorten the time frame from event to notification when it comes to Congressional notifications. And we've also increased those over the last five months, as well.

Like you, I obviously met with the head of Mossad when he was here. That is part of an ongoing dialogue that has also included conversations that I've had with Prime Minister Netanyahu and with Minister Barak; the latter almost on a monthly basis in the nearly five months that I've been in the job.

I think it's very important to note, as the article did in the New York Times, the growing concerns that Israel has and that the

countries in the region have—and indeed, all of us have—about the continued activities by Iran along a path that could, if the decision is made—as Director Clapper noted in his opening statement—to pursue the construction of a nuclear device.

As both of you noted, Israel does see this possibility as an existential threat to their country. And I think it's very important to keep that perspective in mind as, indeed, analysis is carried out.

As you noted, the IAEA inspectors are in Iran right now. I believe their past report was a very accurate reflection of the reality of the situation on the ground. I think that is the authoritative document when it comes to informing the public, of all the countries in the world, of the situation there.

Iran is supposedly, reportedly, trying to be more open this particular time, perhaps trying to reassure countries as it feels the increased bite of the new sanctions, of the Central Bank of Iran sanction and the reduction in the purchase of oil from some of its key customers. And so I look forward, as do others, obviously, to seeing what that public report will provide this time, believing, again, that it will be, again, the authoritative open source document on the program that Iran is pursuing in the nuclear field.

Chairman FEINSTEIN. Thank you very much, General Petraeus.

To me, Pakistan is a very puzzling country. We know that thousands of Pakistanis have been killed by terrorists, and we suspect that what Pakistan is doing is trying to essentially—to use a vernacular—walk both sides of the street. I think I and most of us believe that having a positive relationship with Pakistan, as a nuclear power—a significant nuclear power—is very important. The question I have is how do you assess this relationship, which certainly had its low in December and may or may not be improving; how do you assess it at this time?

Director CLAPPER. Well, let me start and I'll ask Director Petraeus to add in. Well, clearly, as you allude to, Chairman Feinstein, this is a challenging relationship, but it's an important one for exactly the reason that you mention, which is Pakistan is a nuclear power. Pakistan and our interests are not always congruent. Their existential threat continues to be India. They have also paid a huge price because of the militants that they've had in their country and have suffered literally thousands of casualties in that context.

So sometimes our interests converge, and sometimes they differ. But as I would characterize the relationship, it's crucial that we have one and have a positive relationship, even though we've gone through some trying times.

Director PETRAEUS. Well, again, the relationship is very important, but the relationship right now is also quite strained. The most recent cause of that, of course, is the 26 November border incident between ISAF and Pakistani forces.

In the Pakistani Parliament, there is a committee that is determining recommendations for the government for the way forward with the relationship between the United States and Pakistan. I think there's awareness there, as well, that this is a critically important relationship, that there are areas of considerable mutual concern, mutual objectives, while there are also those in which there are diverging interests, as Director Clapper noted.

The activities right now are also complicated, though, because of the difficulties in the domestic context there, where there's a bit of tension between the Supreme Court, between the Army Chief and the ISI Director, and the government, the President and the Prime Minister. That may be calming a bit. There have been signs of that in recent days.

It's worth noting, by the way, that the former Pakistani ambassador to the United States, Ambassador Haqqani, was allowed to leave, and he did arrive in the UAE this morning. Nonetheless, the situation, I think as our British colleagues might say, is fraught, and it is going to take some time, it's going to take a lot of diplomacy, engagement, and so forth, to move forward in a relationship that's important to both of our countries.

I should note that, as a general comment, we believe the relationship between the intelligence services is generally still productive. There is certainly good communication going back and forth. And there has been, again, pursuit of important mutual objectives between the two services.

Chairman FEINSTEIN. Thank you both very much. Mr. Vice Chairman?

Vice Chairman CHAMBLISS. Thanks, Madam Chair.

Director Clapper, press reports—and I emphasize that—indicate that the United States is prepared to trade five Taliban members currently detained at Guantanamo as a confidence-building measure in negotiations with the Taliban.

Now, all five detainees that are named by the press were determined by the current Administration to be—and I quote—"too dangerous to transfer," and are being held as enemy combatants. Now, as part of the task force, did the Intelligence Community concur in the determinations that these five detainees were too dangerous to transfer and should be held as enemy combatants?

Director CLAPPER. Well, I believe that in the original assessments, with which NCTC Director Matt Olsen was involved, that was the case. I should say, though, that this proposed so-called trade has actually not been decided yet. There's continued consultation with the Congress. In fact, there will be a session this afternoon with the Senate leadership on this issue.

And, of course, we are certainly mindful of the provisions in the National Defense Authorization Act and the requirement for certifications, and I believe, inherent in that, is continued consultation with the Congress on whether or not this would go forward.

That said, I think the history has been, in almost every case where we've had hostilities, that at some point in time there are negotiations. I don't think anyone in the Administration harbors any illusions about the potential here. And, of course, part and parcel of such a decision, if it were finally made, would be the actual determination of where these detainees might go and the conditions in which they would be controlled or surveilled.

Vice Chairman CHAMBLISS. Director Olsen, as stated there, you did head the Guantanamo review task force that made the determination that these five reported named individuals were too dangerous to transfer. Have you changed your view with respect to these detainees?

Director OLSEN. Vice Chairman, I have not been involved in any reviews more recently of those detainees. As you point out, they were subject to the review we conducted in 2009 that determined that. I believe those were among the 48 who were deemed too dangerous to release and who could not be prosecuted. But I've done no further review in my current capacity at NCTC.

Vice Chairman CHAMBLISS. So, what you're saying is that the Administration has not asked you for any update of your opinion relative to these individuals?

Director OLSEN. That's correct.

Director CLAPPER. Well, sir, I need to inject here, though, that in the interagency deliberations, certainly the IC has been asked, and we have provided, assessments of the five that are in question. So that has been a part of the discussion.

Vice Chairman CHAMBLISS. And has there been a change by the Community from the categorizing of these individuals as "too dangerous to transfer"?

Director CLAPPER. We haven't—no, sir, I don't believe that under normal circumstance—in other words, repatriation to their point of origin or their country of origin. This is a little different. This is a different condition, though, in terms of the potential for negotiating some form of confidence-building measure with the Taliban. And this is very, very preliminary. And, again, no final decision has been made.

Vice Chairman CHAMBLISS. Let me ask you and Director Petraeus, who are very familiar with this—are you comfortable with transferring these individuals out of Guantanamo?

Director CLAPPER. For me, the key would be where they would go, the intermediate country where they might be detained, and the degree to which they would be surveilled. And that would be the key determinant for me.

Vice Chairman CHAMBLISS. And Director Petraeus?

Director PETRAEUS. Very similar, Vice Chairman. In fact, our analysts did provide assessments of the five and the risks presented by various scenarios by which they could be sent somewhere—not back to Afghanistan or Pakistan—and then, based on the various mitigating measures that could be implemented, to ensure that they cannot return to militant activity.

Vice Chairman CHAMBLISS. The Intelligence Community assesses—and, Director Clapper, your statement for the record underscores—that the Taliban remains resilient and capable of challenging U.S. and international goals in Afghanistan. The Community also assesses that Taliban senior leaders continue to enjoy safe havens in Pakistan, which enables them to provide strategic direction to the insurgency in Afghanistan without fear for their safety.

Does the Community assess that Taliban reconciliation is likely to have a great deal of success, considering that the group is resilient, maintains the ability to challenge the United States, continues to enjoy sanctuary in Pakistan, and knows the timelines under which we plan to withdraw U.S. forces from Afghanistan?

Director CLAPPER. I think our assessment is pretty much as you stated it, sir. The Taliban remains a resilient, determined adversary. That said, again, I repeat—and I don't think anybody harbors any illusions about it, but I think the position is to at least explore

the potential for negotiating with them as a part of this overall resolution of the situation in Afghanistan.

Vice Chairman CHAMBLISS. I want to be careful how I ask this, and hopefully you can respond in some way with respect to our relationship with Pakistan. The safe havens that do exist have been pretty obvious and well-documented publicly.

How is our relationship with Pakistan at this point in time allowing us to address those safe havens and the cross-border activity that's taking place there from a Taliban standpoint?

Director CLAPPER. Well, this is obviously part of the dialogue and engagement that Director Petraeus and I have spoken of. And clearly, this is a point of discussion with the Pakistanis, and they are certainly aware of our concerns. But this is a good example where our mutual interests don't always converge.

Vice Chairman CHAMBLISS. Director Petraeus, anything you want to add to that?

Director PETRAEUS. Well, I think, again, the record is obviously mixed. There has been progress against some of the extremist elements; in the border regions, in particular. That would include, obviously, al-Qa'ida. When number one, two, and three are removed from the picture in a single year, needless to say, that's a pretty significant accomplishment.

But it's beyond that. It's important to note back in October of this past year, for example, four of the Top 20 in a single week were either captured or killed. And, again, some of this has obviously been undertaken together.

There has also been progress by our Pakistani partners against the elements that have threatened their very existence. We should remember that a little over two and a half years ago, it looked as if the Tehrik-i-Taliban Pakistani was going to continue to march right out of Swat Valley and perhaps into the suburbs of Islamabad. They reversed that. They fought very hard. They've taken very, very significant casualties, and in so doing, they've also gone after some of the other elements allied with the TTP in the Federally Administered Tribal Areas.

On the other hand, obviously there's been insufficient pressure on the Haqqani Network and some of the other elements—again, the allies of al-Qa'ida, such as the Commander Nazir group, the IMU, and some others. And then, needless to say, the Afghan Taliban has not been pressured sufficiently in the sanctuaries that it enjoys in Baluchistan and in other areas, as well.

Vice Chairman CHAMBLISS. General Burgess, you've also been integrally involved in this issue relative to the cross-border activity; anything you want to add to this?

General BURGESS. No, sir. In fact, I think Director Petraeus laid the line out very well in terms of where things are progressing.

Vice Chairman CHAMBLISS. Okay.

Director Mueller, a month ago the President signed the National Defense Authorization Act and issued a signing statement in which he outlined his reservations about certain provisions. Regarding Section 1022, which mandates military detention for a limited type of non-U.S. citizen terrorist, the President stated that he would use his waiver authority for entire categories of cases, and would de-

sign implementation procedures to provide maximum flexibility and clarity to our counterterrorism professionals.

Are you aware of any categories of terrorists for whom the President has used, or intends to use, his waiver authority, and if so, which ones, and how are the intelligence and law enforcement communities implementing Section 1022 of the NDAA?

Director MUELLER. Let me start, Mr. Vice Chairman, by saying that at the outset, I had reservations in two areas: one was in terms of our continued authority to investigate terrorism cases in the United States, and that was resolved by the legislation. The other part was what happens at the time of the arrest in the United States? And the statute provides for the Administration to develop a set of procedures that would be applicable to that particular situation.

Without getting into details, I can say that with the Justice Department and White House, they're in the process of drafting those procedures. I think it'd be premature to talk about any of the specifics because it's on the drafting stages, but my hope is that as we go through and develop these procedures, the remaining concerns we have as to what happens at the time of arrest will be resolved.

Vice Chairman CHAMBLISS. I thank you for that comment and would just say that, as you know, we had extensive conversations between DOJ, the White House, and Congress on this issue as it went through that drafting, and I would hope you would continue to dialogue with us with regard to the regulations that are ultimately implemented.

Director MUELLER. Yes, sir.

Vice Chairman CHAMBLISS. Thanks, Madam Chair.

Chairman FEINSTEIN. Thank you very much, Mr. Vice Chairman. Senator Wyden?

Senator WYDEN. Thank you, Madam Chair. And let me commend you, Madam Chair and Vice Chair, for the way in which you put the focus in this Committee in a bipartisan way, and I commend you for it. And to all our witnesses at the table, I thank you for your outstanding service. This has been an extraordinary year.

Let me start with you, if I might, Director Clapper, with respect to Iran. I've come to believe that Iran's leaders are not going to give up their push for a nuclear weapons capability unless they believe it's going to cost them their hold on power. Do you share that assessment?

Director CLAPPER. Senator Wyden, actually, that comports with the Intelligence Community assessment that if the decision is made to press on with a nuclear weapon—and there are certain things they have not done yet to eventuate that—that this would be based on a cost-benefit analysis, starting with the Supreme Leader's world view and the extent to which he thinks that would benefit the state of Iran or, conversely, not benefit.

So that's, I think, precisely where he is, and it will be done on a cost-benefit basis and we don't believe he's made that decision yet.

Senator WYDEN. What could convince them, in your view, that their hold on power is being undermined by their nuclear effort?

Director CLAPPER. I think a restive population—because of the economic extremis that the country of Iran is incurring. If you look

at the two indicators that I think are important—the plunging value of the rial and the extremely high unemployment rate in Iran, I think this could give rise to resentment and discontent among the populace. And that's not to say there haven't been other examples of that elsewhere in the region.

Senator WYDEN. Now, on another subject, Mr. Director, you referenced a recent report that described how foreign spies, particularly those in China and Russia, are stealing our economic secrets. Can you give us some sense of what types of secrets these entities in China and Russia are most interested in stealing?

Director CLAPPER. Well, the report you refer to is a National Counterintelligence Executive Report that was issued this fall, which called out Russia and China—particularly China—for their wholesale plundering, if you will, of intellectual property. And of course, they seem most interested in our technology. Obviously, if they can save themselves the time and expense of doing R&D on their own and just steal it from us, then that works to their benefit.

So, to the extent that they can penetrate unprotected industry networks, which they've done, unfortunately –

Senator WYDEN. Which industry networks, Mr. Director, do you think are most vulnerable?

Director CLAPPER. I think it's across the board. I think a lot of it is driven by what they can get access to. But I think it's pretty much carte blanche; obviously, the more high-tech for them, the better. And so this is a serious, serious problem.

Senator WYDEN. Let me move to a third topic, Mr. Director. In your view, could the peaceful revolution in the Arab world have happened if repressive governments in the region had been successful in censoring Twitter, Facebook, Internet search engines, and electronic communications?

Director CLAPPER. Well, in some cases they tried to do that. I am not sure that the success of these upheavals, if you will, was completely dependent on social media. I think the basic problems in this region, particularly economic—repression of political freedoms and all that—would have bubbled up anyway. I think the social media simply helped fulminate and amplify that resentment when people understood it was a large collective.

So I think the social media certainly facilitated it, but I don't think that without it, it would not have happened. Of course, some of the governments reacted to that by their attempts to suppress such communications.

Senator WYDEN. I won't continue on this because I want to ask something of Mr. Goldberg, but I don't know how the word would have gotten out. I mean, if you look, for example, at the way phones are tapped in the region and a variety of other approaches, I don't think the word would have gotten out.

And that's why I'm going to ask you a question, if I might, Mr. Goldberg. As you know, there is discussion now in the Congress about whether or not Internet search engines should be involved in a censorship approach in terms of dealing with intellectual property, specifically.

Are you concerned that if that is done here, this could be a precedent, which could make it harder for the State Department to go

forward, for example, with Secretary Clinton's Internet Freedom Initiative? I've come to feel that at a minimum, it would be cited as a precedent, that if it's done here, you could have repressive governments around the world say, "Look at what goes on in the United States, and they're supposed to be the leader in terms of freedom; now we'll pick up on it."

Are you concerned that this could possibly be a precedent?

Director GOLDBERG. I think that we're always concerned with many conflicting strains when policy and legislation is being discussed about the Internet and about how to solve various problems with the distribution of information, as well as how to protect private property, as is going on in the Congress at the moment. The Secretary of State, Secretary Clinton, has made it very clear that Internet freedom is a very important principle and the overriding principle as we approach all of these issues.

And I think when we consider whatever precedent is being set, whatever legislation is being considered, that that's the primary interest that we need to consider. The Administration has spoken about online piracy and how to deal with that very serious issue, and that this can be done in a way that protects those freedoms, but is also not going to change the architecture of the Internet.

Senator WYDEN. Let me wrap up with you, Director Clapper, on an issue that I'd asked about before at this open hearing. General Petraeus knows about this. This is the question about the use of force in a speech that was given by Mr. Harold Koh, the State Department lawyer. And let me note at the beginning that it's a matter of public record that the Intelligence Community sometimes takes direct action against terrorists, and this direct action sometimes involves the use of lethal force.

And as you know, Director Koh gave a speech outlining our policy with respect to various terrorist groups. He talked about detention, he talked about the use of unmanned drones, and he noted that under U.S. law, the use of force against terrorist groups is permitted by congressional authorization, while under international law, it is permitted by America's right to self-defense.

But in spite of having asked about this on a number of occasions—and General Petraeus, you know that I, too, share the Chair's view with respect to your working with us here on this Committee and your being forthright—I have not been able to get an answer to this specific question. And I would like to know whether that speech that Mr. Koh gave contained unstated exceptions for intelligence agencies?

Director CLAPPER. With respect to counterterrorism, it does not. So it applies to all components of the government involved in counterterrorism, be it military or non-military.

Senator WYDEN. Are there other exceptions other than counterterrorist activities?

Director CLAPPER. Well, I believe his speech dealt with counterterrorism.

Senator WYDEN. So you believe that his speech—the text of the speech, because this would be important—applies to all agencies? It applies to the Intelligence Community? His entire speech, the overall thrust of the speech, applies to all of the Intelligence Community?

Director CLAPPER. With respect to counterterrorism, yes.

Senator WYDEN. Thank you, Madam Chair.

Chairman FEINSTEIN. Thank you very much, Senator Wyden. Senator Udall?

Senator UDALL. Thank you, Madam Chairman. Good morning. Thanks to all of you for the important work you do.

Let me start by commenting in a follow-on way on the topic that Senator Chambliss mentioned, which was the detainee provisions in the NDAA. I want to thank all of you for weighing in and for sharing, with the Armed Services Committee and the Senate at large, your concerns about the detainee provisions as they were proposed.

We had a spirited debate on the Floor of the Senate for a number of days. Senator McCain was very involved, as were a number of other Senators. I think it was a valuable debate. It was a worthwhile debate. I think it was the Senate at its best. I'm hopeful that the compromises that were put into the final product will work. I'm going to continue to monitor what's happening. I think the debate as to whether we ought to be prosecuting and delivering justice through the military system versus the Article 3 system is an important one.

Senator Feinstein and I and others have joined to introduce the Due Process Guarantee Act, and I think at the heart of our concerns and the center of our mission is to ensure that Americans will not be indefinitely detained. So again, I just want to thank everybody for the engagement and the passion they brought to that important debate.

General Clapper, if I could focus on a particular topic—commercial imagery. I was glad to see your comments at CSIS last week that you're a big believer in commercial imagery. You noted that it has the benefit of being unclassified, which is great for sharing among our war-fighters at all levels and with our coalition partners overseas as well as with non-military users.

In light of those comments, I've become concerned about what I've been hearing about the steep reductions in Fiscal Year '13 for the Enhanced View Commercial Imagery Program. I understand that the White House has requested a requirements review for commercial imagery consistent with the new Defense Strategy, and that this review may well indicate the need for a shift away from the national technical means, given that commercial providers can collect imagery at resolutions that meet virtually all of the military's needs.

So here's my question. Do—do you believe that the Fiscal Year '13 Enhanced View budget will meet the war-fighters' needs for unclassified imagery? How will it affect the safety of our war-fighters and our capacity to work with our allies?

Director CLAPPER. Senator, as you alluded to, I am a huge believer in commercial imagery, going back to when I served as then-Director of NIMA and later NGA in the immediate aftermath of 9/11, and we used a lot of commercial imagery then. It continues to be of great value for exactly the reasons you cited. It's unclassified; it can be shared in coalition contexts as well as in domestic disaster relief and the like.

That said, though, we are looking at some pretty steep budget cuts across the board in the Intelligence Community. And as a consequence, commercial imagery will be considered in that broader look at where we may have to take reductions, and I am not going to single out commercial imagery as the only one. It's my view that not only can we satisfy the military requirements, but all the other non-military requirements, as well for commercial imagery, at the contemplated level of funding.

I think it is incumbent on the industry to perhaps come up with some innovations and business practices and this sort of thing that will help us as we look at a more constrained fiscal environment.

Senator UDALL. I appreciate your attention to this matter. I know many of the other participants today on the panel depend on this kind of imagery. My concern, I think—and you share it, I hear you implying—is that if you cut too far, you reduce the reach of the commercial sector, you may lose skill sets and experts that have played an important role, and you create a downward spiral that may be hard to reverse if it goes too far.

Director CLAPPER. Sir, this is a concern we have across the board, not just in the commercial imagery industry. But as we make reductions, particularly in intelligence, obviously that's going to have some impact on the industrial base across the board.

Senator UDALL. Let me turn to the Middle East, and perhaps direct this question at General Petraeus and Director Clapper—and others on the panel, please feel free to weigh in.

Syria. Do you assess that the fall of the al-Assad regime is inevitable at this point, or is it still in question? If the regime should fall, how do you assess what a post-Assad Syria looks like, both near-term and long-term?

And then what are your thoughts on how Hezbollah and Iran would be affected, should the Assad regime fall?

Director CLAPPER. I personally believe it's a question of time before Assad falls, but that's the issue. It could be a long time. I think two there are factors here. The protraction of these demonstrations and the opposition continues to be fragmented. But I do not see how he can sustain his rule of Syria. And of course, post-Assad would be exactly the issue. There is a question about who would emerge in a post-Assad situation.

As far as Iran and Hezbollah, what is transpiring in Syria is, of course, of great concern to them. It's why they are both expending great effort, in terms of resources and advice and this sort of thing, to try to prop up the Assad regime.

Senator UDALL. General Petraeus.

Director PETRAEUS. Yeah, I generally subscribe to that as well. The opposition is obviously showing a considerable amount of resilience and indeed is carrying out an increasing level of violence. The fact is that Damascus and Aleppo now, two previously relatively safe cities, the two biggest, are now seeing violence in their suburbs.

The initiation of offensive operations by the Bashar al-Assad's regime to try to push them out of the suburbs has met very stiff resistance, and I think it has indeed shown how substantial the opposition to the regime is and how it is, in fact, growing, and how in-

creasing areas are becoming beyond the reach of the regime security forces.

Post-Assad, one would assume that there would be leadership from the Sunni Arab Community of the country, which is certainly the majority, as opposed to the Alawi minority that is the core of the Bashar al-Assad regime. But that then begs the question of what happens to these other elements, to the minorities, to the Alawi, to the Druze, to the Kurdish minority?

Senator UDALL. The Christian Community as well.

Director PETRAEUS. The Druze Christians and other Christian sects as well.

Clearly, the loss of Syria as a logistics platform, a line of communication into Lebanon to support Hezbollah would be a substantial setback for Iran in its efforts to use Hezbollah as a proxy. That is, indeed, why the Revolutionary Guards Corps, Qods Force, is so engaged in trying to prop up Bashar al-Assad right now.

Senator UDALL. Let me turn to another country in that region. General Petraeus, you know better than anyone how much we've invested in Iraq—treasure, our reputation, and of course, the lives of Americans from all over our country. If you were to advise the policymakers sitting here and in the Senate and the Congress at large, what would you suggest we should be doing as Iraq struggles to find a democratic path forward?

Director PETRAEUS. I think essentially continuing what we are in fact doing, which is engaging Iraqi counterparts at various levels, all the way from the top through the diplomatic communities, intelligence and security services, working hard to help them to resolve the ongoing political crisis—and there's no other word for that, although it has perhaps diminished it somewhat.

And it now appears, as of the last 48 hours, that the Sunni bloc of the political leadership is going to return to the government, albeit with still some hedging of bets. Supporting them as they grapple with the security challenges that have emerged over the course of the past two months or so, where al-Qa'ida in Iraq has been a bit more active than it was for quite some period, and helping them to develop further their security forces and their intelligence services to combat a mutual enemy—we do not want to see the resurgence or the regeneration of al-Qa'ida in Iraq—and very much in the interests of both countries and indeed the region and the world, working together to combat it.

Senator UDALL. Thank you. Thank you, Madam Chair.

Senator FEINSTEIN. Thank you very much, Senator. Senator Snowe?

Senator SNOWE. Thank you, Madam Chair. And thank all of you for your contributions to our country.

I want to follow up on a couple of issues with respect to Iran. And obviously it's deeply troubling in terms of the direction that they're taking. And we predicate a lot, obviously, on the report that was issued by the IAEA.

And I know, General Petraeus, you indicate it's an authoritative document.

They list in page 8 of their report the number of activities that are relevant to the development of a nuclear explosive device, including procuring nuclear-related and dual-use equipment, mate-

rials, developed undeclared pathways, the acquisition of nuclear weapons development information and documentation, and work on the development of indigenous design of nuclear weapon, including the testing of components.

I gather we agree with the fact that Iran has not made a decision to weaponize at this point. Director Clapper, do you agree on that?

Director CLAPPER. Yes, but they are certainly moving on that path. But we don't believe they've actually made the decision to go ahead with a nuclear weapon.

Senator SNOWE. Well, how will we decide that they have integrated all of these components in a decision to weaponize; at which point?

Director CLAPPER. Well, certainly——

Senator SNOWE. What will be our red line?

Director CLAPPER. Well, without going into sensitive areas here, certainly a key indicator would be enrichment of uranium to a 90 percent level. That would be a pretty good indicator of their seriousness.

There are some other things they would need to do—which I'd rather not go into in an open session—that we would also look for part and apart from whatever we could glean from across the Community on an actual decision to go forward.

Senator SNOWE. General Petraeus, do you care to answer, as well?

Director PETRAEUS. No. I fully subscribe to that. Again, the various components—enrichment, weaponization, delivery, and what we think would be evident if there is a decision to enrich beyond the 20 percent that they are currently enriching to—to the weapons grade—would be very significant, and, I think, a tell-tale indicator. There's no commercial use for that, arguably—in fact, not arguably—I think factually, the amount of 20 percent enriched uranium that they have exceeds any requirement, for example, for the Tehran Research Reactor for the foreseeable future. So there are already concerns just with that.

Senator SNOWE. And the IAEA report said much of it is dispersed among a number of locations. So, with the inspectors being there for however many days, several days, would they be able to discern or detect their ability to weaponize at what state they're in? What do we hope to glean from the process?

Director CLAPPER. Well, as Director Petraeus has alluded, the rule of IAEA is extremely important here. And of course, we do have to bear in mind that Iran is a signatory to the Nonproliferation Treaty. The facilities that they are now operating are safeguarded, meaning they are required to be inspected by the IAEA.

So, their presence there, and in fact their extended stay there. And it is IAEA's intent, as they said before, to hopefully resolve these ambiguities about Iran's program and its intent. So, what they have to say is crucial, and of course, their continued access is crucial.

Director PETRAEUS. And there's continuous monitoring, also, by other means that the IAEA has as well.

Senator SNOWE. General Burgess, Iran has issued various threats with respect to the Strait of Hormuz. Can you give us some analysis of the activities there and what we are doing, in addition

to—what capabilities does Iran have—or doesn't have—with respect to having the potential to close the Straits or affect it in any way, in terms of international transit?

General BURGESS. Well, ma'am, what I have said in open discussions on this—a lot would have to be taken to closed session—but clearly the Iranians have the capability, we assess, to temporarily close the Straits of Hormuz. The concern becomes, then, defining "temporarily". But they clearly have that capability. But if we go any further, I'd prefer to go to closed session, ma'am.

Senator SNOWE. Do we have a defined time in that respect—on temporary?

General BURGESS. Ma'am, I'd prefer to go to closed session.

Senator SNOWE. Okay. Thank you. Director Clapper, getting back to the issue of Pakistan, there was a senior Administration official who was quoted recently in an article talking about developing a new normal in terms of relationship with Pakistan. So much of what we're doing in Afghanistan is predicated on effectively addressing and rooting out the safe havens, obviously. And that is the predicate and template for the President's policy that he indicated in June, and that obviously we need to have that strong relationship with Pakistan.

How is our strategy going forward affected by what's developing in Pakistan, especially now, where, as General Petraeus indicated, there is a review of our relationship that's underway within the Pakistan government, the Parliament?

And then secondly, they're issuing threats about imposing taxes on the transit of our materials, both ours and NATO's, from their ports and roads to Afghanistan. So this is deeply troubling. And I don't know if this is a new normal, but how does that affect our situation in Afghanistan, and how is it that ever changes the dynamic in Afghanistan?

Director CLAPPER. Well, it obviously has a profound impact on Afghanistan and the prospects for successful resolution there. And that is a way of emphasizing the importance of a positive relationship with the Pakistanis. And this is getting into the policy realm now outside of intelligence, but it's crucial that our dialogue proceed and that we find some way of converging on that issue, as well, particularly with respect to safe havens.

Pakistanis are very proud people, and they felt their sovereignty was assaulted in the Abbottabad raid, and of course, the regrettable incident in November with the killing of the Pakistani troops along the border sort of heightens that. That has caused them to collectively reassess the relationship.

But in the end, I believe they realize they need a positive partnership with us. And hopefully we'll work through these in such a way that we minimize the impact of these safe havens.

Senator SNOWE. General Petraeus, you're obviously in an interesting position, being both Commander of the forces and the architect of the counterinsurgency strategy in Afghanistan, and now being Director of the Central Intelligence Agency.

Since you've assumed this position, do you view things any different in Afghanistan with respect to our Strategy?

Director PETRAEUS. No. I can't say that I do.

Senator SNOWE. Even with some of the reports that have been issued publicly regarding the assessments of Afghanistan, and that it is very difficult to make the gains that are essential, precisely because of what is happening with the safe havens in Pakistan? These issues are ever thus. I mean, nothing's changed in the dynamic, unfortunately, including the corruption, the government, and now, of course, the safe havens. These have sort of been the dynamics that have been there since the beginning.

Director PETRAEUS. There is nothing easy about Afghanistan. As we used to say, it's all hard all the time, but it's also all important all the time. There's a reason we went there in the wake of 9/11. We have hugely important national security interests there and it's very important to that country, to the region, and to the world that we do everything possible to try to get that right and to ensure that Afghanistan is never again a launch pad for extremist attacks, as it was for the 9/11 attacks.

If I could, by the way—you touched on something that alluded to the fact that I had a different viewpoint at various times than that of the Intelligence Community. And I was pretty clear, I think, in my confirmation hearing, that that typically resulted from the fact that the Intelligence Community tends to stop, if you will, a clock, and then for six to eight weeks do the analysis, argue within the Community itself on the ultimate position, and then actually provide the NIE or district assessment or whatever document is provided to policymakers.

And typically, in the four times that I have differed with the Intelligence Community on Iraq or Afghanistan, the reason for it has been that lag in a dynamic situation that we continued to make progress or, in a couple of cases, didn't. Because in those four cases, twice I thought the assessment was too negative by the Intelligence Community, and then once in Iraq, once in Afghanistan, two other times, I felt that the Community was actually too positive and that we should be more guarded in our assessments.

Senator SNOWE. Yeah. I appreciate that. I well recall that. And I know there is that sort of, you know, difference, and in terms of the culture even, but also the lag time.

Director PETRAEUS. Well, what I should note is that Director Clapper and all of us have discussed this. And what we want to do is dramatically reduce that amount of time when you stop the clock for the analysts to start the writing, if you will, or to finalize the writing, so that there is not such a large gap between the end of the data and the delivery of the product to the policymakers, to Congress, and to the rest of the Community.

Senator SNOWE. So that probably didn't happen this last NIE?

Director PETRAEUS. Actually, I'm glad you asked that, because I think that's worth clarifying.

First of all, the most recent NIE in an open session addressed the post-2014 period. It was not on the past year or how things were going in general in Afghanistan; it was assessments by the Intelligence Community analysts about the various scenarios. In other words, if you make a certain set of assumptions about the level of support and a number of other factors in Afghanistan, what will be the likely outcome?

And there were a series of assumptions, groups of assumptions, about that. There was relatively little on the state of the insurgency. In fact, in open session it basically said, yes, there has been continued progress, but also that the Taliban does remain resilient.

The military's concern in this case was a view that there perhaps should have been an additional set or even sets of assumptions that could be analyzed; in particular, some assumptions that may have implied a greater level of assistance than was in those other sets. And that was really the issue.

So I think that the accounts of this have not, in all cases, been completely well informed, shall we say.

Senator SNOWE. I appreciate that. Thank you.

Director PETRAEUS. Thanks.

Senator FEINSTEIN. Thank you very much, Senator Snowe. Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Madam Chairman. I want to make a couple of comments. One is I was very pleased to hear that you want to proceed with the renewal of FISA. Actually, I think FISA has served two roles. One, it created a very valuable piece of legislation for us. It was not without controversy, but it was a right thing to do.

And secondly, I think it helped what some of us who have been here for some years should point out, that I think it helped open up the dialogue between the Intelligence Community and this Committee. This Committee went through a long period of time when the IC Community treated us very cavalierly. It was not interested in sharing. We could only—I guess it was Pat Roberts at the time, and myself. We switched one Chair and then the other Chair.

They would talk with the gang of four, the gang of eight, but never both committees. They would never share what they told us and there were certain circumstances where we could not share what they had told us because it was a specific request, and for good reason.

But it was not a good relationship. It was not a good relationship. I mean, just as—right after 9/11, the first thing that the Congress did was to pass a law saying it was okay for the Central Intelligence Agency and the FBI to communicate with each other, perhaps even shake hands and perhaps even start to work up a little intelligence on the FBI side. That was a long process. All of this is long and painful.

Now, I lead up to this by saying I cannot describe to you my own frustration and sense of wonderment how all of our DNI directors have come before these meetings and have, at least in the past—you referenced today, Director Clapper, that, far and away, the most important matter of national security is something called cyber security. The President in his State of the Union actually used the words "cyber threat," which I think is a better way of talking about it because it's more sort of stunning, alarming, and less passive. We have made virtually no progress on that subject.

So on the one hand, the Intelligence Community is telling us that it's the number one national security threat, not, you know, taking three of the top five out or, you know, what's going on here or there. But on a sustained basis, national security depends upon our ability to form a system wherein private companies working with

DHS and the government can on their own and decide how they want to protect themselves and get some help from DHS.

We do not over-regulate—some have said that—because we've made changes. Olympia Snowe and I came up with a bill three years ago, and it's wandered through Melissa Hathaway and Mr. Schmidt, and nobody seems to get very excited about either it or the subject. And I'm very troubled by this, and I want to discuss this with you, specifically.

You're in the IC Community. Cyber security is not in your general line of work, General Petraeus, but it's very much in Director Clapper's line of work, and therefore, all of your lines of work. I don't see, particularly, movement. There were some criticisms made of Olympia Snowe's and my bill that it was too regulatory. We have interfaced with hundreds of private stakeholders and companies over the years, and they're quite satisfied with an almost-completed bill, or a virtually completed bill that we have.

And so, our Democratic leader and the President talked about—we've got to do this. The President, as I say, did mention it in the State of the Union. That is important, but nothing has happened. And if it is a national security threat, if it is the national security threat, I don't understand why we can't get working together on this and get a bill done.

You know, FISA was hard, but this makes FISA look like a piece of cake and it's far more in the long term. No, not in the long term; it's probably equal in the long term in terms of its importance. But it's been a very bad demonstration on the part of the Congress, the Administration and the public, which really has no particular interest in cyber security because nobody's explaining it to them, because it's abstract. It's not pushed by any one group with particular emphasis, and therefore, nobody's very excited about it.

We've worked out a way that the private sector companies basically take responsibility for their own cyber safety, cyber security. DHS helps them and they're held accountable for it. I grew so frustrated by the lack of action on the part of all of us—the conclusive action that I went to Mary Schapiro at the Securities and Exchange Commission and said, look, I can't do legislation evidently right now. Would you please at least post on the SEC website where investors go all the time, obviously, to figure out if they're going to invest in private companies or not, and that private company would have to simply say if they had been hacked into, period. That's all they had to say; not what subject, but just that they had been hacked into.

Sort of a desperate measure, but it was a start. It's had some effect. People are talking about that effect in Washington. That doesn't interest me unless it's headed towards a bill.

So I would like to get your take, General Clapper, and perhaps Director Mueller, also, and anybody else who chooses to speak on the subject. How can you tell us that it's the principal national security threat and we have absolutely no bill? We do have a bill, but we have no sort of pervasive push to get this accomplished, not just a legislative matter.

Director CLAPPER. Well, first of all, I don't think there's any question as to the potential here. And there is sort of, I think, two dimensions to this. There's what goes on day-in and day-out in

terms of our intellectual property being stolen from us, which is a real threat. Then there is the potential, although I think it's less likely, of a massive attack, as some have described, that would basically paralyze the country or key segments thereof.

The most likely proponents of that would be a nation-state; specifically, China or Russia. That's why I pushed hard to have that unclassified report published by the National Counterintelligence Executive that highlighted that threat.

I think that is an important responsibility of the Intelligence Community to advise all and sundry—whether it's Administration officials, whether it's the Congress, or the public—of the nature of that threat.

I do think the government has a responsibility to provide support and advice, as exemplified, in my mind, by the Defense Industrial Base Pilot program that was championed by former Deputy Secretary Bill Lynn in the Department of Defense, which evolved, I think, a very workable formula whereby threat data is provided to key companies, particularly those involved in the defense or, for that matter, the intelligence business.

But I think the bigger issue here is how do we protect the nation's cyber? And that is an open question, and I'm not sure that's completely the responsibility of the Intelligence Community. I do not view it that way. I think there needs to be a government-private partnership. They have to participate, and they have to be open about that, as well.

As far as championing a bill, I personally have sort of deferred to the White House on——

Senator ROCKEFELLER. Director Clapper, my time is about to run out. You cannot—it's not your job to champion a bill. But I just—you know, at some point, you start asking, if you and your predecessors—Mike McConnell and others—have come up and—you know, said this is our number one national security threat, and you're in the threat business, to say that I don't—this is not necessarily what we do, frankly, I'm just using this forum to scream out—who is going to start paying attention to this?

Director CLAPPER. Well, I think a lot of people are paying attention. And certainly, the President's mention of it—there's a White House coordinator for it who's orchestrating this across the board. It involves the Intelligence Community. It involves the Department of Defense. It involves, clearly, the Department of Homeland Security. And I think that the leadership for that has to be in the interagency.

So I don't know that it's fair to say that, you know, the Administration doesn't care. It certainly does.

Senator ROCKEFELLER. I'm just saying that we have made no progress. We have made no progress, and that is embarrassing in view of what you and your predecessors have said about the nature of the threat.

Director Mueller, do you have any comments?

Director MUELLER. Yes, Senator. I think it's wrong to say we're excited—or somebody should be excited about it. I can tell you that we are exceptionally concerned about that threat. I do not think that today it is necessarily the number one threat, but it will be tomorrow. Counterterrorism and stopping terrorist attacks is a

present number one priority for the FBI. But down the road, the cyber threat, which cuts across all programs, will be the number one threat to the country.

We look at it in three different perspectives. The first is, inside the FBI, we have to change our organizational structure. In the same way we changed to address terrorism, we have to change to address cyber crime. We have to recruit and hire and bring on the persons who are capable of doing it. We have to understand that our role is to investigate intrusions and to thwart further intrusions.

And secondly, in the same way we had to share intelligence in the wake of September 11, we have to share information and intelligence between the various entities who address this particular threat. At the time of intrusion, you do not know whether it is a state actor, a Russia or a China. You don't know whether it's an OC, organized crime entity, or the high school student down the street.

And consequently, you can't allocate it to a particular agency, which is why we developed the National Cyber Investigative Task Force with the FBI, CIA, DIA, NSA, Secret Service, all of those who have a role to address this kind of threat. And so we have to build up the collective addressing of that threat in the same way that we did so and broke down the walls in the wake of September 11.

And lastly, in terms of legislation, we have pushed in the legislation two areas that are of concern to us. One is a national data breach requirement. There are 47 states that have different requirements for reporting data breaches. There has to be a national data breach requirement for reporting, and we should be recipients of that reporting.

And secondly, there has to be in the statute, in my mind, the ability to share the information indicative of a crime with the Bureau and others who have that responsibility. But it is something that we as an organization are focusing on as the next substantial threat.

Senator FEINSTEIN. Thank you very much, Senator Rockefeller. And I have a data breach law that's been pending for some time, so hopefully you'll include it.

Next is Senator Conrad.

Senator CONRAD. Thank you, Madam Chairman. I want to thank you and the Vice Chair of this Committee for conducting this Committee in such a thoroughly professional way. I really have enjoyed my service on this Committee and in no small measure because of the leadership of this Committee. I think it's just—it's a very good example for the rest of the Senate.

I also want to thank all those who are here testifying on behalf of the Intelligence Community. Let me just add my voice with respect to the press reports reflecting on Director Petraeus by these unseen, unnamed sources.

You know, as far as I am concerned, these people that work behind the cloak of anonymity attacking people are cowards. If they have something to say about somebody, if they want it to have some credibility, they ought to have the courage to stand up and say it and put their name behind it. And I'd say to the press they

ought to quit printing anonymous attacks on people; it does not reflect well on them, either.

So with respect to Director Petraeus, as far as I'm concerned, he's a patriot. He's demonstrated that not only in his military career, but on taking on this assignment. That was, to me, an act of patriotism. It would have been very easy for him—he didn't need to do this for his reputation or his career. So he deserves our praise, not these nameless, faceless attacks that, frankly, have no basis in fact, either.

And my—my experience is I have been quite pleasantly surprised at how open the Intelligence Community has been with this Committee, quite to the contrary of this report.

Director Mueller, thank you for agreeing to serve another couple of years. I think that, too, is an act of patriotism. It's very much appreciated. At this time of threat to our country, for you to agree to take on additional years of service deserves our public praise.

And we thank all of you. I can't neglect mentioning Mr. Olsen because his parents are from my home state. I know them well; couldn't have finer people. We're very, very fortunate to have people of that quality and character serving.

I'd like to ask each of you in turn, since this is an annual meeting—what is your assessment of whether or not we have made progress in our ability to handle the terrorist threat to this country? Have we made progress? If so, how? Are we slipping? What is your assessment of how we have done compared to where we were a year ago?

I'd start with Mr. Goldberg and go right down the line.

Mr. GOLDBERG. I think, as it was said earlier, Senator Conrad, that progress has been made in various parts of the counterterrorism fight, especially against al-Qa'ida senior leadership. But there are many other challenges out there, and it remains a very, very dangerous part of our work.

Senator CONRAD. Ms. Wagner.

Ms. WAGNER. Senator, I think we have made a lot of progress, particularly in a couple of key areas. I think it was already mentioned the extent to which many of the stovepipes have been broken down in terms of information-sharing between the elements of the Community. I think we have made huge progress in that realm, and in fact, we operate as a team. And I am daily interacting and operating particularly with my colleagues at the FBI and at NCTC, looking at the terrorists that are abroad as it projects to the Homeland, and then dealing with the FBI on the issues that are inside the Homeland.

In the second area, I would just say quickly that where we've made a lot of progress, I think, in my own Department, is in the ability to which we have been able to harness the intelligence from the Intelligence Community to inform our instruments, if you will, to keep people out at our borders, to make sure that the wrong people are not getting on airplanes at last points of departure, and to make sure that people who shouldn't get them are not receiving immigration benefits from the Department.

So we've really tightened our ability to take what the Community is producing and operationalize that in Homeland Security.

Senator CONRAD. Mr. Mueller.

Director MUELLER. The removal of bin Laden and al-Awlaki was a huge benefit to the security of the United States, my brothers and sisters in the other agencies. By the same token, there are still leaders in both Yemen and Afghanistan-Pakistan border area that have the capability of launching attacks domestically.

Most of the arrests that we've made over the last year, year and a half, had been lone wolves, those individuals who have been radicalized, trained on the Internet, and have the capability of developing IEDs and other mechanisms on the Internet.

And as we have been relatively successful in addressing these particular plots, nonetheless, the ability of persons to utilize the Internet, to be both individually radicalized but also get the information they need to undertake attacks, has increased.

Senator CONRAD. Director Clapper.

Director CLAPPER. Sir, just to take perhaps a little longer perspective, this is my third job in the Intelligence Community in the last 12 years. I started at NIMA two days after 9/11. I think we've made tremendous progress.

The transformation of the FBI into an intelligence-driven organization is just one case in point. The maturation of Department of Homeland Security, the expansion of the Intelligence Community to include both foreign and domestic aspects, the sharing at the federal, state, local, tribal, and private sector level, I think, demonstrate improvement.

That's not to say we should rest on our laurels. We always have more issues to deal with. And this is not, particularly with respect to counterterrorism, it's not a threat that's going to go away.

Senator CONRAD. Thank you.

Director PETRAEUS. Senator, first of all, thanks for your words of support. We have made considerable overall progress over the course of the last year. Any time the top three leaders of the most significant terrorist organization that faces us are taken out, that, needless to say, is really quite a banner year. And al-Qa'ida in the Arabian Peninsula, al-Shabaab, and other organizations have sustained important losses as well.

Having said that, the threat of terrorism remains significant and we must sustain the campaign, we must maintain the pressure on al-Qa'ida and its affiliates and other violent extremist organizations, wherever they may be.

Beyond that, I also concur with Director Clapper that there has been continued important progress in the organizational aspects of the war on terror. The counterterrorist campaign has benefited enormously from the continued efforts to better integrate intelligence for the various elements of the Community to work together more effectively and, frankly, even within individual agencies to further the progress in the integration of efforts between, say, the CIA operators, as well as analysts, in bringing together all of the different components of our organization and the rest of the Intelligence Community, say, in the Counterterrorist Center and some of the other centers that we have, as well.

Senator CONRAD. General Burgess.

General BURGESS. Sir, I guess the phrase up here is I would like to associate myself with the remarks of those that have gone before me. As a plank holder in the Office of the Director of National In-

telligence, I agree with Director Mueller and Director Clapper. We have made great strides in many different areas.

Having said that, we still have work to do and we still have challenges remaining.

Senator CONRAD. All right. Mr. Olsen.

Director OLSEN. Consistent with the other comments, the bottom line, I think, is that al-Qa'ida is weaker now than it has been in the past 10 years. That said, we face a more diffuse and decentralized threat from al-Qa'ida's affiliates in Yemen and Somalia, as well as the threat from lone actors in the United States.

As Director Clapper said, I think from an organizational perspective, in answering your question, our ability to handle the threat—we are better positioned, and I think the operative word is it's a team approach. We're better positioned to share information, as the Vice Chairman commented at the beginning of the hearing; we do a better job of integrating that information and analyzing it.

At NCTC we've made improvements in watch listing and in providing situational awareness. And overall, again, it's a team effort among all of the agencies represented here.

Senator CONRAD. Just in terms of summing this up, what I hear is significant progress, serious threats still remain to the United States, and that the teamwork in the Intelligence Community itself has dramatically improved. I'm hearing that quite consistently.

I think that's very important for the people that we represent here, that they understand, yes, we've made progress, in some ways very dramatic progress, especially against al-Qa'ida, but that significant threats remain and that we've got to continue to be vigilant, which means we've got to continue to put resources to these issues.

I thank the Chair.

Senator MIKULSKI. Good morning, everybody, though it's mostly heading into the afternoon. I would like to thank each and every one of you for the wonderful work you do every day, in every way, protecting our country.

So much progress has been made since 9/11 in reforming the Intelligence Community, making it more effective, making it an integrated unit. The fact that all of you are here at the table at the same time points to our successes, and probably one of our greatest has been what we have done to dismember and decapitate al-Qa'ida.

But I'm going to pick up on the issue that Senator Rockefeller raised about Cyber. I've been kind of almost a "Johnny-One-Note" on this issue in what I focus here. I share Senator Rockefeller's frustration over a lack of urgency. I think it's partly due to the Executive Branch, and also due to the Congress itself. My questions are going to go to Clapper, Mueller, and Wagner.

First, just a comment about urgency: it's now been—when we get to April, it will be five years since the attack on Estonia, in which we thought we were going to trigger Article V of NATO for the first cyber war. So we've had five years of supposed to being on the edge of our chair on this issue.

One was—how do we protect dot-mil, and so on? But what we've now seen is the issues related to dot-gov and dot-com in recent meetings with you, Director Mueller, because of your involvement

to the Appropriations Committee, and with Ron Noble, Interpol, and the Interpol team, it is the protection of the dot-com. And he spoke most eloquently about the counterfeit and fake drugs coming into European countries, to Canada, and to ourselves.

In a meeting with Dr. Hamburg yesterday at FDA, when we were talking about a new regulatory framework to get drugs to the market fast and yet safe, one of her biggest challenges is protecting the secrets that she has of America's pharmaceutical biomedical device community and the supply of the drug chain.

Right now, there is a bigger criminal penalty for a knockoff of a Louis Vuitton handbag than there is for fake heparin, which is a blood thinner that came into our country that could kill thousands of people.

So you get what I'm saying here. The growing issues around protecting dot-mil in our country, organized crime—Interpol says Cyber is the growing crime, and it affects state secrets, trade secrets, and then also this other stuff there—the corruption, that where there is a weak government there is a strong organized crime element.

So we've got to really move on this. Senator Rockefeller has spoken about his frustration with the Executive Branch. I'm frustrated with the Legislative Branch. We have turf battles, we dither and diddle over policies, and so on. He has a great policy, and so on.

So let me get, though—because to me, there are three issues: urgency, foggy policy—particularly on governance, and the need for bipartisan camaraderie among ourselves to pass the bill.

So let me get to the governance issue, and it goes to Director Clapper, and then Ms. Wagner, and then Director Mueller.

So the question is who's in charge? We all diddle and dither over the governance issue. Article 10 and Article 50; Homeland Security; is it dot-mil, et cetera. So let's take our President. He is at the Democratic Convention and the lights go out in San Diego. He said, "Oh, my God." He turns to Napolitano and says, "What is this?" While he turns to Napolitano—and the lights only go out for maybe three hours, the lights go out in Boston, et cetera. So he turns to Napolitano and says, "What the hell are we doing here and what can we do?"

My question is, is Napolitano in charge? We know the President's in charge. Okay, we know the President's in charge. But what is the President in charge of? And I need to know who would respond, and so on, because I feel that it is the governance issues that are the number one issues, and we continue to diddle, dither, and punt.

Ms. WAGNER. I'm just going to jump in here. You know, if the lights go off—and we're talking an electrical power grid issue—then I would say that, you know, my secretary would be the logical person to turn to because we have a clear role.

Senator MIKULSKI. And what would she do?

Ms. WAGNER. Well, if I could answer the question I didn't get to answer last time, and then I'll get to that.

Your first question about who's in charge—there's never a simple answer to that question, especially in this town, because we all have pieces of the pie. But I can tell you that where we are, where our responsibilities lie is in securing the dot-gov, and then securing

the parts of the dot-com that are associated with critical infrastructure and key resources, including, in your example, the power grid.

So we would hope that we would have been notified because of procedures that we would have already put in place, the relationships we would have built, the education we would have given, that they had detected some kind of issue or intrusion.

Senator MIKULSKI. Have you done this?

Ms. WAGNER. Yes, we have. And we would then turn to our partners.

Senator MIKULSKI. Well, why don't they feel that?

Ms. WAGNER. I think, ma'am, we still have a ways to go in terms of educating and building up this network that we've been working on. And we are trying to bring a sense of urgency to that.

We then turn to our partners in the FBI and NSA, because, as Director Mueller mentioned earlier, you never quite know what the genesis of these attacks are. It could be crime. It could be a state actor. It could be an accident. It could be a disgruntled former employee.

So we work this as a triad. We make sure that we're bringing to bear the appropriate technologies to bring things back on line as quickly as possible, and we ensure that we have an investigation going to try to determine the source and the attribution.

Senator MIKULSKI. Ms. Wagner, first of all, my job—I don't want to harangue you, so just know that. But I don't believe this. I mean, I really have——

Director Clapper, what do you think here? So there you are. Is the President going to call you? You're the DNI.

Director MUELLER. Well, the President calls us. I mean, the fact of the matter is this happens a fair amount now. DHS is responsible for the infrastructure. But when it comes to attribution, identifying the attribution of a particular domestic intrusion, it generally falls to us. And what we currently do is we get ourselves and DHS at the table and we will put a team out. As soon as we got the word, there would be a team. Generally, we would lead that team, but we'd have DHS there because of the infrastructure. And wherever the outages are, wherever the investigation leads us, we would have a team of ourselves, DHS, and, if it goes overseas or if we need expertise, we'd have NSA and others from the Community in there. And we do this as a matter of course now when we get a substantial intrusion that needs immediate investigation.

Senator MIKULSKI. Director Clapper.

Director CLAPPER. Well, I think what Director Mueller has described kind of captures the essence of what I believe is the Intelligence Community's responsibility, which is the detection and attribution of an attack writ large, whether foreign or domestic.

I just might mention that it just so happens that the Administration is sending a senior-level team to brief the entire Senate on cyber security tomorrow on the threat and what needs to be done about it. Secretary Napolitano, I'm told, will be there, my Deputy, John Brennan from the White House, the Deputy Secretary——

Senator MIKULSKI. There are 11 coming. There are 11 coming. So that means that there are 11. But I'll come back not only—I mean, it's great that they're going to come and brief us. It's great that the National Security Council has come to this issue.

But my question is still, going back to the Rockefeller and the sense of urgency, do you feel that the current authorities related to Title 10 and Title 50, and then the issues around Homeland Security—we're not talking about the current situation, our proposed goal, or the way it ought to be when the repository of knowledge inside rests in a military agency at the National Security Agency.

Director CLAPPER. I would say that there probably could be more done to take advantage of that technical expertise that you recognize that resides in NSA. You know, the Department of Defense's response to that was to establish Cyber Command as a war-fighting headquarters, but smartly, though, having the Director of NSA dual-hatted as the Commander of Cyber Command for military application.

I think there is a debate, frankly, that maybe perhaps the responsibility of DoD is bigger than just to defend itself. This would be a good topic to bring up at this session tomorrow.

Director MUELLER. If I may just interject, we have built up a substantial expertise in this arena over a period of time; not only domestically, but internationally. We have agents that are positioned overseas to work closely with, embedded with our counterparts in a number of countries. And so we have, over a period of time, built up an expertise. That is not to say that NSA doesn't have a substantial expertise, also, understanding where it's located——

Senator MIKULSKI. But it's a different kind.

Director MUELLER. Well, no, much of it is the same kind. Much is the same kind. In terms of power, I think NSA has more power in the sense of capabilities. In terms of expertise, I would not sell ourselves short.

Senator MIKULSKI. We wouldn't sell you short, either.

Ms. WAGNER. And ma'am, I'd like to add that we're committed to leveraging NSA's expertise in technology to bring to bear for the sectors where we have responsibility. And we think we've made a lot of progress in that regard.

Senator MIKULSKI. Well, my time is up, but I think, Senator Feinstein, this shows that some of the issues are here. We can—we can't stop the threat. We can only stop ourselves. This is why I think we need to have a robust new legislative framework and we have to de-conflict these issues. And instead, we just remain foggy and keep punting.

Senator FEINSTEIN. I thank you; you headed our Cyber Task Force. I thank Senator Rockefeller for his interest. I think you both are absolutely correct. I think we need to get cracking on it. My own view is that there's, kind of, one overwhelming issue where there's a difference of opinion, and that's whether the standards mean something or whether they're purely voluntary in the dot-com area. This needs to get resolved and we need to move.

So I thank you both for the work you've done. As Chairman of Commerce and as our Task Force Chairman, thank you very, very much.

Senator MIKULSKI. Thank you.

Senator FEINSTEIN. Let me move on and give you the list, as it remains, because it's going to take us close to one o'clock. We have Senator Coats, Senator Risch, Senator Nelson, and Senator Rubio.

So it would be my intention, unless there's objection, not to do a second round, but to complete this round.

Senator Coats.

Senator COATS. Madam Chairman, thank you. I'd like to pursue an issue that you brought up in your opening, Chairman, Madam Chairman, relative to the situation as it exists with Iran and its pursuit of nuclearization and the potential Israeli response.

And I think based on what was said earlier, if there's any dispute to the fact that sanctions to date have not brought about results that we would hope for—and I think, Director Clapper, you indicated in your statement, "We hope that sanctions will prevent the necessity for an Israeli response."

I don't think—I think the evidence is clear unless there's hard evidence to the contrary that we are not aware of, that sanctions to this point have not made any kind of difference with the regime in Iran. Does anybody dispute that?

Director CLAPPER. No, sir, Senator Coats. That is precisely the Intelligence Community view or assessment that to this point, the sanctions, as imposed so far, have not caused them to change their behavior or their policy.

Senator COATS. And secondly, Director Clapper, you said, "We judge Iran would likely choose missile delivery"—no, I'm sorry—"We judge Iran's nuclear decision-making is guided by a cost-benefit approach. Iranian leaders undoubtedly consider Iran's security, prestige and influence, as well as international political and security environment when making decisions about its nuclear program."

Is there any indication that sanctions to date have changed their view relative from a cost-benefit standpoint?

Director CLAPPER. Well, I think it's fair to say, and we could go into this in more depth in a closed environment, that there is dissension and debate in the political hierarchy of Iran. So there is not unanimity about this. And I do think that to the extent that the international community is united on this, with U.S. leadership, I do think they pay attention to international opinion and what others think of them.

And certainly if there are impacts on their oil exports and to the extent that that would affect their financial situation, that could have, I think, a profound impact on their decision-making calculus in terms of, as we said, the cost-benefit.

Senator COATS. But that's more of a hope and a wish than it is a hard reality, from what I understand.

Director CLAPPER. As I said, to this point, the sanctions have not caused that calculus to change, apparently. But as the pressure ratchets up, there is the prospect that they could change.

Senator COATS. Would a dramatic decrease in oil prices have a bearing there? But what is the likelihood of that, given the world demand for oil energy sources?

Director CLAPPER. Well, it could, and that's what we'll have to see how this plays out. And this, in turn, is dependent on the willingness of the main customers of Iran to support that position.

Senator COATS. But to date, those main customers are not supporting these sanctions.

Director CLAPPER. I wouldn't say that. Again, we can discuss this in closed session, as to who is and who isn't.

Senator COATS. Okay. We can discuss that in closed session. I don't see any public acknowledgement that China, India, some of the fast-growing Asian nations, have joined us in supporting rejecting any kind of export.

Director PETRAEUS. If I could, Senator, actually publicly, it is well known that China reduced its imports of Iranian oil in the purchases. I mean, these are matters of public record. It remains to be seen whether that continues. It appears that Saudi Arabian production is ramping up and can fill some of the demand that might have been met by Iranian exports now that there are the sanctions on the Central Bank of Iran.

Senator COATS. Thank you, Director. But aren't we in a situation where the clock is ticking?

Director PETRAEUS. Certainly.

Senator COATS. The clock is ticking on the side of the Iranian pursuit of nuclearization and perhaps weaponization of nuclear capability. And it has been for some time.

My own view is that it's going to take tougher sanctions than currently exist in order to beat that clock that's ticking toward a nuclear Iran. And so—but also, we're—you know, we see how difficult it is to ratchet up that next level of sanctions and get the world community's support. I mean, it took us a long time to get European support for the current level of sanctions. We don't have Chinese or Russian support for it. It's unlikely that we would, unless something changes that I'm not aware of.

And when you put that in the context of what the Israelis must be thinking—and everybody acknowledges that it's an existential question for them, we've got a time factor here. And I just want to be realistic about the fact that the hope that sanctions—it's been described as the hope that sanctions—can bring about the desired results that we all want, both from the Iranian standpoint and from the Israeli standpoint. I don't know if any—you'd like to comment?

Director CLAPPER. Well, sir, I think you've very accurately captured the gravity of the situation and what's at stake here and particularly for what's at stake for the Israelis.

Senator COATS. Would a naval blockade—which I guess would be an act of war—naval blockade achieve the kind of cost-benefit ratio that would give them real pause about changing their attitudes?

Director CLAPPER. Well, I don't know, sir. We'd have to take that one under advisement, but perhaps to air out the possibilities there in a closed session.

Certainly, that would have impact on their calculus. Whether it would move in the direction of a positive outcome or a negative outcome is hard to say.

Senator COATS. Well, of course, the outcome we want is trending very strongly toward a negative—I mean, the outcome that seems to be taking place is trending strongly toward a negative outcome. And the outcome that we want seems to be diminishing.

And I hope I'm wrong on this, but it just seems to me that we've had years and years and years of sanctions. It's very difficult to ratchet those up and tighten them to the point where we see a de-

cided change in the Iranian supreme leadership decisions on this. The recent movement of uranium to Qom and enrichment and the defiance in terms of public statements that come out of Iran all indicate that, so far—I mean, maybe they're disputing this internally, but so far we have not seen positive results from that.

And when you're viewing it from the Israeli standpoint, it clearly, I think, reaches the level of perhaps the number one challenge of 2012, as the Chairman has indicated. General?

Director PETRAEUS. Well, I do think it's . . .

Senator COATS. Excuse me—Director. Director General.

Director PETRAEUS. The latest round of sanctions, of course, is really just being felt, and it will take a number of months. But as you note, there is a clock ticking during that time, and there is the inexorable progress, if you will, and the refinement of additional uranium to 3 percent, then 20 percent, and a variety of other activities that are ongoing.

And again, the IAEA has laid these out very accurately and effectively. But the fact is that the Iranian currency has lost considerable value recently. There are runs on the bank in recent weeks that have been seen as the Iranian citizenry tries to get its money out of their own domestic currency and into anything that will hold its value better as inflation also takes off. Director Clapper talked about problems of unemployment as well. But the overall situation is one in which the sanctions have been biting much, much more literally in recent weeks than they have until this time.

So I think what we have to see now is how does that play out and what is the level of popular discontent inside Iran? Does that influence the strategic decision-making of the Supreme Leader and the—and the regime, keeping in mind that the regime's paramount goal in all that they do is their regime's survival?

Senator COATS. I have additional questions to pursue, particularly regarding the Israelis' perception of the impact of this, but I think that's better left for closed session.

Thank you, Madam Chairman.

Chairman FEINSTEIN. Thank you very much, Senator. Appreciate it. Senator Nelson?

Senator NELSON. Thank you, Madam Chairman. Senator Coats, in response, I think it's instructive to remember what the policy is on this, as stated by the President in the State of the Union. And he said, quote, "America is determined to prevent Iran from getting a nuclear weapon, and I will take no options off the table to achieve that goal."

And then the Secretary of Defense was interviewed on 60 Minutes and said, "The U.S. and the President's made this clear. It does not want Iran to develop a nuclear weapon. That's a redline for us, and it's a redline, obviously, for the Israelis, so we share a common goal here. If we have to do it, we will do it."

Questioner: "What is 'it'?" And this is the secretary—"If they proceed, and we get intelligence that they're proceeding with developing a nuclear weapon, then we will take whatever steps are necessary to stop it."

Question: "Including military steps?"

Answer: "There are no options that are off the table."

Senator COATS. Would the senator yield just for a quick response?

Senator NELSON. Of course. Of course.

Senator COATS. In a previous life, I served here and I heard much the same rhetoric regarding North Korea. And now we know that North Korea, despite all of our rhetoric, possesses nuclear weapons capability. And I just hope we don't have to talk ourselves into a situation where we're not able to back up what we say. We didn't do it before, and so it raises some skepticism on my part by statements made by both Republican and Democrat leadership relative to what you indicated and quoted. But we've been down this road before.

Senator NELSON. Well, let's ask General Clapper. Is that the policy?

Director CLAPPER. I read it just as you do, sir. It's not policies as much as it's execution. And in the case of the North Koreans, our policy was just words, not action.

Senator NELSON. Well, I believe—this senator believes the stakes are so high that the policy will be executed.

What I wanted to do was I wanted to give an example from an earlier discussion of how we are meeting the terrorist threat. And I want to particularly congratulate you, Mr. FBI Director, because we just had a plot in Florida, in Tampa, to have several truck bombs go off downtown to kill a lot of people. And the FBI was all over this, in coordination with the U.S. Attorney, in coordination, bringing in local law enforcement, the sheriff's office, the Tampa police department.

But what is also instructive is help with intelligence out of the Muslim Community to identify the potential perpetrator and to stop him before he did the act. And I think it's another example of how all of these different stovepipes that weren't interacting before are beginning to. So I congratulate you.

Director MUELLER. Thank you, Senator. It was, as I want to use the word here, a team effort of particularly state and local law enforcement and the other federal authorities working together over a substantial period of time.

But I particularly want to single out the Muslim Community for its recognizing a threat and bringing it to the authorities. And I will tell you, over a period of time, many of our cases—most of our cases have come with individuals from the Muslim Community or the neighborhood who have brought to our attention concerns about the potential threat in which we have run and ultimately have resulted in a disruption of a plot.

Senator NELSON. Madam Chairman, thank you.

Chairman FEINSTEIN. And I thank you, Senator Nelson, for your patience.

Senator Rubio.

Senator RUBIO. Thank you. Thank you all. For the panelists, I think this is kind of a general question. I don't know who will handle it. It has to do with Iran's intentions in the Western Hemisphere.

I think it's generally accepted, I think it's fact that Iran is willing to sponsor and use terrorism as a tool of its foreign policy and its statecraft around the world. And so it's with alarm that I view,

having been on this Committee only a year, but that I view a recent trip through Latin America, a four-nation trip, Ahmadinejad to Latin America—now, part of it probably is just an effort, I think, to show that he's not isolated, that there are countries that will actually meet with him and talk to him, and part of it is that.

And I think mutually important, some of these leaders, particularly the one in Venezuela, have these weird illusions that he's some sort of global figure and that, and on that stage he's actually a relevant individual.

But beyond that is something else that I may be concerned about. And maybe, in this open source, you can comment a little bit about what else is behind there.

I mean, a couple things that are concerning is, for example, the Venezuelan banking system is a significant banking system where billions of dollars flow through there. Could it not be used as a place to evade sanctions, for example?

We also know that I guess they opened up what is called Banco Internationale del Desarrollo. I guess it's the International Bank of Development. And I think the largest stakeholder in that is a bank by the name of—it's an Iranian bank—Saderat, if I'm not mistaken, which we know is used to funnel funds to Hezbollah and other groups like that.

So we're concerned about that. Obviously, the resources, uranium mining, et cetera, is an issue, and then, you know, any other kind of asymmetrical capabilities that that may be establishing in the region.

So, kind of on a global—kind of looking at that, how serious a threat is it? How focused are we on it? Obviously, you know, relatively speaking, it's not what we confront in the Middle East yet, but what's the state of that? Because there's not a lot of conversations about Iran's intentions in this hemisphere.

Director CLAPPER. Well, we are concerned about it. We do follow it. And I think you're quite right and I appreciate your highlighting that, Senator Rubio, because in this day and age, the Iranians are looking anywhere for a friendly hand. Ahmadinejad's trip was not all that successful.

Obviously, we are very concerned about the connection with Venezuela. And of course, the most obvious manifestation of this outreach is the plot uncovered to assassinate the Saudi ambassador here in Washington, which was uncovered in Mexico—with the cooperation, by the way, of the Mexican authorities.

So there is more to unfold here. I think they are, consistent with their outreach elsewhere, trying as well to penetrate and engage in this hemisphere.

We'll have to—I would like to research a little bit these financial banking, potential financial banking connections. I'm not current on that specifically. But I think that if there is, that's indicative of their attempts to, again, evade sanctions, which they have worked very assiduously at in the past.

Senator RUBIO. Just as a follow-up to that, and I appreciate it, is—and obviously we're limited in what we can talk about in this setting, nor would I ask you to opine on specific, you know, policy decisions that have to be made—but I would just encourage, whether privately or otherwise, for the Administration and those in the

Intelligence/security Community to think about—I hate to use the word red lines, it's been discussed—but certainly things we're not going to tolerate in the region. Because I think there's potentially always the risk that some may think we're so distracted in other parts of the world that there are certain things they may be able to get away with in terms of capability building that we're somehow not going to respond to.

So I don't think we should necessarily be out looking for conflicts, but I certainly think there are things that we should not allow and that we should consider that as a matter of policy expressing that, privately or publicly, whatever, you know, fits the—the needs of the Community.

My last question is about Mexico and just your—any assessment that we have with regards to drug violence in that country posing a threat to governance and to the government, particularly in such an important year where these key elections are going on in that country.

Director CLAPPER. Director Petraeus just returned from a very successful trip to Mexico, so I'll ask him to address that.

Director PETRAEUS. Well, thanks. I did indeed just visit there. There's no question about the magnitude of the challenges there to the rule of law. In certain areas it does not exist.

But there's also no question about the determination of the government of Mexico and indeed the progress that they have made in a variety of different ways, both in terms of results in taking key leaders of the criminal gangs, the narcotic—illegal narcotics gangs out of action, very substantial results in that in the last two or three years in particular, but also in their organizing for this effort and in the building of institutions.

Indeed, I think that the legacy of the current president will be the institutions that he has built during his time in terms of, for example, the national police, in coming to grips with some of the judicial challenges, the opening up of—or soon to open, for example, more than five additional corrections institutes, and indeed the comprehensive approach that they are taking to this effort in truly a civil, military, law enforcement approach, because that is, obviously, what it takes to retrieve certain areas that have gotten away from the grip of the government and the writ of law, if you will.

That's the impression that I took away from this. And clearly the fact that this is going to be—continue to be a very tough fight. But my sense that the government knows what needs to be done, has been building, again, these critical institutions that are necessary to carry out this comprehensive campaign that they recognize is necessary.

Needless to say, all of the different elements of the U.S. government are partnering with their respective elements of the Mexican structures. The integration of intelligence that we've tried to achieve here in the United States is something that they're also trying to achieve in Mexico and it's something with which we're involved in trying to support.

Chairman FEINSTEIN. Thank you very much, Senator Rubio.

Senator Wyden has one last question.

Senator Wyden.

Senator WYDEN. Madam Chair, thank you for your courtesy.

Director Clapper, as you know, the Supreme Court ruled last week that it was unconstitutional for federal agents to attach a GPS tracking device to an individual's car and monitor their movements 24/7 without a warrant. Because the Chair is being very gracious, I want to just do this briefly.

Can you tell me, as of now, what you believe this means for the Intelligence Community, number one, and two, would you be willing to commit this morning to giving me an unclassified response with respect to what you believe the law authorizes?

This goes to the point that you and I have talked, sir, about——

Director CLAPPER. Yes, sir.

Senator WYDEN [continuing]. In the past, the question of secret law, as you know. I strongly feel that laws and their interpretations must be public and that of course the important work that all of you are doing, we very often have to keep that classified in order to protect secrets and the well-being of your capable staff.

So just two parts: One, what you think the law means as of now, and will you commit to giving me an unclassified answer on the point of what you believe the law actually authorizes.

Director CLAPPER. Sir, the judgment rendered, as you stated, was in a law enforcement context. We are now examining, as are the lawyers, what the potential implications for intelligence are, foreign or domestic. So that reading is of great interest to us and I am sure we can share it with you.

One more point I need to make, though. In all of this, we have and will continue to abide by the Fourth Amendment.

Senator WYDEN. Okay. Thank you, Madam Chair.

Chairman FEINSTEIN. Thank you very much. And I'd like to end this by thanking all of you. I think it's been a positive year, as much as one can say anything is a positive year in this area.

I just was looking at the list of the twenty plots that had been prevented this past year, and it's really consequential, the work that has been done to protect the Homeland, as well as the work that's been done abroad.

So I think we really have a very important intelligence team together, and I think it's really progressing. And I know on behalf of the Vice Chairman and myself, we are very grateful to you, and I know that includes the whole Committee as well.

So thank you very much for your dedication, for your talent, and for your extraordinary service.

[Whereupon, at 12:30 p.m., the Committee adjourned.]

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