

**CURRENT AND PROJECTED NATIONAL SECURITY
THREATS TO THE UNITED STATES**

HEARING
BEFORE THE
SELECT COMMITTEE ON INTELLIGENCE
OF THE
UNITED STATES SENATE
ONE HUNDRED ELEVENTH CONGRESS
FIRST SESSION

FEBRUARY 12, 2009

Printed for the use of the Select Committee on Intelligence



Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

50-026 PDF

WASHINGTON : 2009

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

SELECT COMMITTEE ON INTELLIGENCE

[Established by S. Res. 400, 94th Cong., 2d Sess.]

DIANNE FEINSTEIN, California, *Chairman*

CHRISTOPHER S. BOND, Missouri, *Vice Chairman*

JOHN D. ROCKEFELLER IV, West Virginia	ORRIN G. HATCH, Utah
RON WYDEN, Oregon	OLYMPIA J. SNOWE, Maine
EVAN BAYH, Indiana	SAXBY CHAMBLISS, Georgia
BARBARA A. MIKULSKI, Maryland	RICHARD BURR, North Carolina
RUSSELL D. FEINGOLD, Wisconsin	TOM COBURN, Oklahoma
BILL NELSON, Florida	JAMES E. RISCH, Idaho
SHELDON WHITEHOUSE, Rhode Island	

HARRY REID, Nevada, *Ex Officio*

MITCH McCONNELL, Kentucky, *Ex Officio*

CARL LEVIN, Michigan, *Ex Officio*

JOHN McCAIN, Arizona, *Ex Officio*

DAVID GRANNIS, *Staff Director*

LOUIS B. TUCKER, *Minority Staff Director*

KATHLEEN P. MCGHEE, *Chief Clerk*

CONTENTS

FEBRUARY 12, 2009

OPENING STATEMENTS

Opening Statement of Hon. Dianne Feinstein, Chairman, a U.S. Senator from California	1
Bond, Hon. Christopher S., Vice Chairman, a U.S. Senator from Missouri	2

WITNESS

Admiral Dennis C. Blair, USN (Ret.), Director of National Intelligence	4
--	---

SUBMISSIONS FOR THE RECORD

Prepared Statement of Admiral Dennis C. Blair	10
Kathleen Turner, Director of Legislative Affairs, Office of the Director of National Intelligence, letter transmitting responses to questions from Com- mittee Members, April 24, 2009	80

CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE UNITED STATES

THURSDAY, FEBRUARY 12, 2009

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

The Committee met, pursuant to notice, at 2:35 p.m., in Room SH-216, Hart Senate Office Building, the Honorable Dianne Feinstein (Chairman of the Committee) presiding.

Committee Members Present: Senators Feinstein, Rockefeller, Wyden, Bayh, Mikulski, Feingold, Nelson of Florida, Whitehouse, Bond, Hatch, Snowe, Chambliss, and Risch.

Chairman FEINSTEIN. The hearing will come to order.

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

Our hearing today is the Senate Select Committee on Intelligence's 15th annual Worldwide Threat hearing. Today we're going to hear testimony from Director Dennis Blair, the Director of the national intelligence community. This will be his first testimony to us since assuming his new position, so congratulations, Director, and welcome.

As the DNI, Mr. Blair is in charge of the 16 agencies that comprise the intelligence community. Since he is the manager of the entire IC, Director Blair has requested that he be the sole witness at the table, and the Committee has agreed to his request. It should be said, however, that his testimony and responses today reflect the analytical judgments of all of the intelligence agencies.

Director Blair, we understand you've been on the job for two weeks and should not be expected to know every nuance of every judgment held by tens of thousands of intelligence analysts. We expect that you will turn, if you need to, to other experts behind you to provide more detailed responses to Members' questions. That's up to you.

At times the intelligence community speaks with one voice. At other times there are differing views held by one or more agencies on a topic of vital interest to our national security. I think we believe that this is not a shortcoming; it is a strength. We should view the free and open exchanges of the intelligence community to be a strength.

The President and his advisers, our leaders in the military and diplomatic corps, and Members of Congress need to know all the perspectives and all the threats to better set the policies to protect our union, and that is the point of this.

So, it is with a great deal of pleasure that I welcome you to your first public World Threat hearing. And I will now turn to the distinguished Vice Chairman for his remarks, and then we will have seven-minute rounds based on the early bird rule.

**OPENING STATEMENT OF CHRISTOPHER S. BOND, VICE
CHAIRMAN, A U.S. SENATOR FROM MISSOURI**

Vice Chairman BOND. Thank you very much, Madam Chair, and I join with her in welcoming the new Director, Director Blair, before the Committee—your first time as the DNI.

And we would note, as we've discussed before, that the intelligence community has significantly improved its capabilities and performance since 2004 when we passed the reorganization. But work remains to be done. We look forward to working with you in this Congress to help where we need to in legislation.

Today you're going to discuss current and projected threats, and our nation's senior leaders depend upon good information from the intelligence community. Most Americans never know the sacrifices made by, or the tremendous debt we owe, the brave men and women who are the front lines facing threats we are about to discuss, and in many areas do work that the public will never know about.

It's our responsibility on the Committee to ensure that the agencies have the resources, capabilities and authorities, and to do so we need to be kept informed of the threats, issues and regional developments so we know how to best provide for them. At times it seems to me that people tend to forget the direct assault on this country on September 11th, over seven years ago, the lessons we learned from that day, and those who were responsible have vowed to inflict more harm upon us.

We went into Afghanistan, deposed the Taliban, removed the threat to the United States from al-Qa'ida sanctuaries there. And we went into and removed the base operations of al-Qa'ida in Iraq. But we still have not been able to eliminate the al-Qa'ida and the Taliban insurgencies emanating from the Federally Administered Tribal Areas in Pakistan, which fuel the Afghan insurgency and allow al-Qa'ida to organize, train and plan operations. And we look forward to working with you on formulating a good policy.

The continued existence and operations of al-Qa'ida with global outreach continue to be of concern. While we focus our efforts in Iraq, Afghanistan and Pakistan, al-Qa'ida operatives in Algeria, the Sahel, Yemen, the Horn of Africa are able to train, rest and prepare for attacks in the region and against the U.S. or our allies. We have to pay attention to al-Qa'ida wherever it operates and we look forward to getting information from you on that.

I'm also very much concerned about the motives of Iranian leaders who continue to provide overt support, training, weapons and assistance to militants in Iraq and Afghanistan, as well as to organizations like Hezbollah, Hamas and the Palestinian Islamic Jihad. The intelligence community told us in late 1997 that we did not know Iran's intentions, but we knew it was pursuing a weapons capability in the nuclear field until at least 2003. Additionally, we now see Tehran making significant advancements in its civilian nuclear program, which could give Iran the technical capability nec-

essary to produce highly-enriched uranium, which requires very careful attention.

And we constantly hear a litany of other threats that face the United States, including the intensification of disagreements with Russia, the possibility of an outbreak of hostilities between India and Pakistan, Chinese–Taiwan confrontation, the North Korean nuclear program, continued proliferations of missiles and weapons of mass destruction, as well as any number of foreign intelligence organizations that seek to spy on and weaken the U.S.

Other threats are out there. One year ago your predecessor, Mike McConnell, presciently warned us about the increasing threat in the cyber realm. He said, “The U.S. information technology infrastructure, which includes telecommunications, computer networks and systems, and the data that reside on those systems is critical to virtually every aspect of our modern life. On threats to our IT infrastructure, an important focus of this community, we assess that nations, including Russia and China, have long had the technical capabilities to target U.S. information systems for intelligence collection.” “The worrisome part,” he said last year, “is today they could also target information infrastructure systems for degradation or destruction.” And I’d like to hear your thoughts on that.

Additionally, I think we’ve become aware that energy, and its control, in many nations which are not friendly to us allows them to have a very large and potentially harmful impact on international security and international relations. We have seen what they have been able to do with cutting off of supplies, what some of our major energy producers have been able to accomplish in the foreign policy realms by cutting off energy supplies and threatening to do so.

My personal belief is that our inability to get the most effective pressure on Iran that we could pose, from an economic standpoint, is our inability to cut off the supply of refined petroleum to Iran. And it is my strong suspicion that the energy supply lines have influenced, and perhaps kept, some of our allies who should be as concerned as we are about Iran, from utilizing that very, very important economic and diplomatic weapon. We need to do a better job on that, as we’ve discussed with you. We are sadly lacking in energy intelligence from hostile nations.

Finally, one of the biggest threats we face, as always, is what we haven’t uncovered yet—the unknown threat that falls outside our spheres of collection, flies under the radar and is not recognizable as a threat to any of our sources. The intelligence community has to see beyond traditional security models, break down old threat paradigms and create new methodologies and tradecraft for recognizing the threats we haven’t seen before.

This means we have to recognize that we don’t always know what we don’t know, and find a way to discover it anyway. My primary concern, as ever, is being able to prevent attacks on the U.S. and to guarantee the continued safety of the American people. I’d look to you now to help us to find what those threats may be.

Thank you, Madam Chair. And, again, welcome Mr. Director.

Chairman FEINSTEIN. Thank you very much, Mr. Vice Chairman.

And we’ll now proceed to you, Mr. Director. I wonder if I might ask that you confine your remarks to 15 minutes, if that’s conven-

ient. If it isn't, just ask for more time so that we have ample time to ask questions.

Thank you.

**OPENING STATEMENT OF ADMIRAL DENNIS BLAIR, USN
(RET.), DIRECTOR OF NATIONAL INTELLIGENCE**

Director BLAIR. Yes, Madam Chair. Fifteen minutes should be plenty adequate.

And I would like to thank the Committee for confirming me since we last met. After two weeks on the job, I can tell you it's a tremendously patriotic, highly-skilled and brave workforce that I have the pleasure to lead. And in the preparation for this testimony this afternoon, and other editions of it that that will come later, we had a lively exchange; everybody participated.

I'm happy to say that we do share the facts in the intelligence community quite widely, but we often have different opinions. And, as the Chairman said, I think that's a healthy way to do it, and I heard a lot of that debate as I was preparing to speak to you this afternoon.

I'd like to begin my remarks—and my remarks are not just looking at threats but also looking at opportunities and looking at the security landscape that we face. I think at the beginning of a new administration, at the beginning of a new Congress, it's a good time to take stock and see where the United States needs to go to protect its interests in a major way before we get into all of the details of having to go operational as we must, and it's in that spirit that I offer my remarks.

I'd like to begin with the global economic crisis because it already looms as the most serious one in decades, if not in centuries. Since September, 2008, 10 nations have committed to new IMF programs. Unlike the 1997–1998 Asian financial crisis, countries will not be able to export their way out of this one because of the global nature.

Chairman FEINSTEIN. The mics are difficult, and you have to speak—pull it as close to you as you can, and you have to speak unidirectionally into it.

Director BLAIR. All right, I will try to keep my head still. Thank you.

Chairman FEINSTEIN. Thanks.

Director BLAIR. The stakes in this are high. Mexico, with its close trade links to the United States, is vulnerable to a prolonged U.S. recession. Europe and the former Soviet Union have experienced anti-state demonstrations. Much of the former Soviet Union, Latin America, Sub-Saharan Africa lack sufficient cash reserves and access to international aid. Economic crises increase the risk of regime-threatening instability if they are prolonged for a one- to two-year period, and instability can loosen the fragile hold that many developing countries have on law and order, which can spill out in dangerous ways into the international community.

There are some silver linings. With low oil prices, Venezuela will face financial constraints this year. Iran's president faces less-than-certain prospects for reelection in June. However, a serious energy supply crunch may happen in the longer-term future if sustained

low prices lead to the deferral or the canceling of energy infrastructure projects in the near term. So it's a confluence of events there.

This crisis presents challenges for the United States. We're generally held to be responsible for it. The November G-20 summit has brought the influence of emerging market nations into the larger group, but the U.S. also has opportunities to demonstrate increased leadership. Our openness, developed skills and workforce mobility put us in a better position to reinvent ourselves. Moreover, Washington will have the opportunity to fashion new global structures that can benefit all.

Moving now to terrorism, we have seen progress in Muslim opinion turning against terrorist groups. Over the last 18 months al-Qa'ida has faced public criticism from prominent religious leaders and even from fellow extremists. In 2008, these terrorists did not achieve their goal of conducting another major attack on the U.S., and no major country is at immediate risk of collapse from extremist terrorist groups.

Replacing the loss of key leaders since 2008 in Pakistan's Federal Administered Tribal Areas has proved difficult for al-Qa'ida. Al-Qa'ida in Iraq has been squeezed. Saudi Arabia's aggressive counterterrorism efforts have rendered the Kingdom a harsh operating environment for al-Qa'ida. But despite these setbacks, al-Qa'ida remains dangerous. Yemen is reemerging as a jihadist battleground. The capabilities of terrorist groups in East Africa will increase in the next year, and we remain concerned about the potential for homegrown American extremists inspired by al-Qa'ida's militant ideology to plan attacks within the United States.

There are many challenges in that region that stretches from the Middle East to South Asia, despite this progress against countering violent extremism that I recounted. The U.S. has strong tools, from military force to diplomacy. We have good relations with the vast majority of states in the region, and we will need all of these tools in order to help forge a durable structure of peace and renewed prosperity in the region. The revival of Iran as a regional power, the deepening of ethnic, sectarian and economic divisions across most of the region, the looming leadership succession among U.S. allies are all reshaping this landscape.

Hezbollah and Hamas, with support from Persian Iran, have successfully seized the mantle of resistance to Israel from moderate secular Arab regimes. Battle lines are increasingly drawn, not between Israel and Arab countries, but also between secular Arab nationalists and ascendant Islamic nationalist movements inside the Arab states.

The Iranian regime views the United States as its principal enemy and also as a threat to them. A more assertive regional Iranian foreign policy, coupled with its dogged development of a deliverable nuclear weapon, alarms most of the governments from Riyadh to Tel Aviv. The Levant is the key focal area for these strategic shifts. Recent fighting between Israel and Hamas in the Gaza Strip has deepened Palestinian political divisions. It has also widened the rift between regional moderates—led by Egypt, Saudi Arabia and Jordan—and hardliners, including Iran, Hezbollah and Syria.

With Hamas controlling Gaza and Hezbollah growing stronger in Lebanon, progress on a Palestinian–Israeli accord is going to be more difficult. With Iran developing a nuclear weapon capability and with Israel determined not to allow it, there is potential for an Iran–Israeli confrontation or crisis. Moderate Arab states fear a nuclear-armed Iran, but without progress on the Palestine settlement, they're harder put to defend their ties to the United States.

In Iraq, coalition and Iraqi operations and dwindling popular tolerance for violence are sidelining the extremists. Fewer Iraqis are dying at the hands of their countrymen than at any time in the past two years. Nevertheless, disputed internal boundaries, Sunni perceptions of government repression, or increased foreign support to insurgent or militia groups could reverse political and security process, and Baghdad will also be coping with declining oil revenues, its primary source of government budgets.

In Afghanistan, the Taliban-dominated insurgency forces have demonstrated greater aggressiveness in recent months. Improved governance and extended developments were hampered in 2008 by a lack of security. Afghan leaders must tackle endemic corruption and an extensive drug trade. Progress has been made in expanding and fielding the Afghan National Army, but many factors hamper efforts to make these units capable of independent action. The upcoming 2009 presidential election will present a greater security challenge than did that in 2004, and insurgents probably will make a concerted effort to disrupt it.

And no improvement is possible in Afghanistan without Pakistan taking control of its border areas, improving governance and creating economic and educational opportunities throughout the country. In 2008, Islamabad intensified its counterinsurgency efforts, but its record in dealing with militants has been mixed, as it balances conflicting internal and counterterrorist priorities. The government is losing authority in the north and the west. And even in the more developed areas of the country, mounting economic hardships and frustration over poor governance have given rise to greater radicalization.

The time when only a few states had access to the most dangerous technologies is long over. Often dual use, they circulate easily in our globalized economy, as does the scientific expertise to put them together into weapons. It's difficult for the United States and its partners to track efforts to acquire components and production technologies. They're widely available. Traditional deterrence and diplomacy constraints may not prevent terrorist groups from using mass-effect weapons. So, one of the most important security challenges facing the United States is fashioning a more effective non-proliferation strategy with our partners in this effort.

The assessment that was in our 2007 National Intelligence Estimate about Iran's nuclear weapons programs are generally still valid today. Tehran, at a minimum, is keeping open the option to develop deliverable nuclear weapons. The halt in the recent past in some aspects of the program was primarily in response to increasing international scrutiny and pressure. Some combination of threats—threats of intensified international scrutiny and pressures, along with opportunities for Iran to achieve its security

goals—might prompt Tehran to extend the halt to some nuclear weapons-related activities.

Turning to Asia, rapidly becoming a long-term locus of power in the world, Japan remains the second-largest economy and a strong ally, but the global downturn is also exacting a heavy toll on Japan's economy. To realize its aspirations to play a stronger regional and even global role will require political leadership and some difficult decisions. The rising giants, China and India, are playing increasing regional roles economically, politically and militarily. China tries to secure access to markets, commodities and energy supplies needed to sustain domestic economic growth, and their diplomacy seeks favorable relations with other powers, especially the United States, in order to facilitate it. The global economic slowdown threatens China's domestic stability and China's leaders are taking both economic and security actions to deal with it.

Taiwan, as an area of tension in U.S.–China relations, has substantially relaxed. The Taiwan President Ma, inaugurated in May, has resumed dialogue with Beijing, and leaders on both sides of the straits are cautiously optimistic about less-confrontational relations. But preparations for a possible Taiwan conflict nevertheless drive modernization goals for the People's Liberation Army, and China's security interests are broadening beyond Taiwan. A full civilian and military space capability and formidable capabilities in cyberspace are being rapidly developed. China will attempt to develop at least a limited naval power projection capability, which is already reflected in anti-piracy operations off the coast of Somalia.

Like China, India's expanding economy will lead New Delhi to pursue new trade partners, gain access to vital energy markets and generate other resources that sustain rapid growth. India's growth rate will slow this coming year, but ample reserves and a sound banking system will help ensure relative stability.

Determined efforts by Indian and Pakistan leaders to improve relations could unravel unless Islamabad, for its part, takes meaningful steps to cut support to anti-Indian militant groups and New Delhi, for its part, makes credible efforts to allay Pakistan's security concerns. The increase in violent attacks within India is a cause of great concern to its government, as is instability in neighboring countries in South Asia.

On the global stage, Indian leaders will continue to follow an independent course. That we are both democracies does not guarantee a congruence of interests. Nonetheless, good relations with the United States will be essential for India to realize its global ambitions.

Although the Middle East and Asia have the highest call on our attention, our concerns are broader. Russia is actively cultivating relations with regional powers, including China, Iran, Venezuela. Moscow also is trying to maintain control over energy networks to Europe and East Asia. Russian leaders have recently spoken positively about the possibilities for change in the U.S.–Russian dynamic but NATO enlargement, the conflict over Georgia's separatist regions, and missile defense will all pose difficulties.

In Latin America, populist, often autocratic regimes pose challenges to the region's longer-term success. Basic law and order issues, including rising violent crime and powerful drug-trafficking

organizations confront the key hemispheric nations, as do uneven governance and institution-building efforts in combating chronic corruption. The corruptive influence and increasing violence of Mexican drug cartels impedes Mexico City's ability to govern parts of its country. Unless the United States is able to deliver market access on a permanent basis, its traditionally privileged position in the region could erode with an concomitant decline in political influence.

Africa has made substantial economic and political progress over the last decade. The level of open warfare has declined significantly, especially in Liberia, Sierra Leone and the Ivory Coast. But the drop in commodity prices and the global recession will test the durability of the region's recent positive growth trend.

Even before the current crisis, the six percent GDP growth rate of the continent, though impressive, could not bring about the necessary structural reforms to reduce poverty, and a number of intractable conflicts persist in the Democratic Republic of Congo, Nigeria, Sudan, and Somalia. In Darfur, U.N. peace talks remain stymied and a larger peacekeeping force is slow to deploy.

Let me finish with the long-term challenge of environmental security and the threats to our information technology infrastructure. Adding more than a billion people to the world's population by 2025 will put pressure on clean energy sources and food and water supplies. Most of the world's population will move from rural areas to urban areas seeking greater opportunity. Many, particularly in Asia, will achieve more advanced lifestyles with a greater per capita consumption and greater per capita generation of pollution.

According to the United Nations Intergovernmental Panel on Climate Change, physical effects of climate change will worsen in coming years. Multilateral policymaking on climate change is likely to be substantial and a growing priority within traditional security affairs. The world sees the United States in a pivotal leadership role. As effects of climate change mount, the U.S. will come under increasing pressure to help the international community set goals for emission reductions and to help others through technical progress.

And finally, threats to our information technology infrastructure are an important IC focus, as they were last year, as the Vice Chairman mentioned. Our information infrastructure is both becoming indispensable to the functioning of our society and it's becoming vulnerable to catastrophic disruption in a way that the old analog decentralized systems were not. Cyber systems are being targeted for exploitation and potential for disruption or destruction by a growing array of both state and non-state actors.

If I could have two more minutes, Madam Chairman, I think I can finish up. Thank you.

Network defense technologies exist. They're widely available but they often are not uniformly adopted within our networks. A number of nations, including Russia and China, can disrupt elements of the U.S. information infrastructure. We must take proactive measures to detect and prevent intrusions before they do significant damage.

We must recognize that cyber defense is not a one-time fix. It requires continual involvement in hardware, in software, in cyber de-

fenses, and in personnel. The international security environment we face is complex. The global financial crisis has exacerbated what was already a growing set of political and economic uncertainties. We're nevertheless in a strong position to shape a world reflecting universal aspirations and values that have motivated Americans since 1776—human rights, the rule of law, liberal market economics, social justice.

Whether we can succeed will depend in part on the actions we take here at home—restoring strong economic growth, maintaining the scientific and technological edge, defending ourselves at reasonable cost while preserving our civil liberties. It will also depend on our actions abroad, not only in how we deal with regions, regimes, and individual crises, but also in developing new cooperative multilateral approaches, whether they're formal or informal, for effective international cooperation in areas like trade and finance, in neutralizing extremist groups using terrorism, in controlling the proliferation of weapons of mass destruction, in developing codes of conduct in defenses in cyberspace and in real space, and in mitigating and slowing the effects of global climate change.

Madam Chairman, thank you very much. I'm ready to turn this into a discussion.

Chairman FEINSTEIN. You have said what you want to say?

Director BLAIR. I have. Thank you.

[The prepared statement of Director Blair follows:]

**Annual Threat Assessment of the
Intelligence Community
for the Senate Select Committee on Intelligence**



Dennis C. Blair

Director of National Intelligence

12 February 2009

February 2009

SENATE SELECT COMMITTEE ON
INTELLIGENCE

FEBRUARY 2009
INTELLIGENCE COMMUNITY
ANNUAL THREAT ASSESSMENT

UNCLASSIFIED
STATEMENT FOR THE RECORD

Chairman Feinstein, Vice Chairman Bond, Members of the Committee, thank you for the invitation to offer my assessment of threats to US national security. As in previous years, the judgments I offer the Committee in these documents and remarks and in my responses to your questions are based on the efforts of thousands of patriotic, highly skilled professionals, many of whom serve in harm's way. I am proud to lead the world's best Intelligence Community and would like to acknowledge the assistance provided by all the intelligence agencies in preparing this report, in particular the National Intelligence Council and CIA's Directorate of Intelligence, which contributed a substantial portion.

Far-Reaching Impact of Global Economic Crisis

The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications. The crisis has been ongoing for over a year, and economists are divided over whether and when we could hit bottom. Some even fear that the recession could further deepen and reach the level of the Great Depression. Of course, all of us recall the dramatic political consequences wrought by the economic turmoil of the 1920s and 1930s in Europe, the instability, and high levels of violent extremism. Though we do not know its eventual scale, it already looms as the most serious global economic and financial crisis in decades.

Forecasts differ significantly over the depth of the downturn. Industrialized countries are already in recession, and growth in emerging market countries, previously thought to be immune from an industrialized country financial crisis, has also faltered, and many are in recession as well. Even China and India have seen their dynamic growth engines take a hit as they grapple with falling demand for their exports and a slowdown in foreign direct and portfolio investments. Governments worldwide are initiating monetary and fiscal stimulus programs designed to stabilize and recapitalize their financial sectors, cushion the impact of stalling economic activity, and eventually jumpstart a recovery, perhaps as early as late 2009. The IMF, which recently released its revised forecast for 2009 projecting an anemic 0.5 percent increase in the global economy, warns that the risks to the global economy are on the downside.

The financial crisis and global recession are likely to produce a wave of economic crises in emerging market nations over the next year, prompting additional countries to request IMF or other multilateral or bilateral support. Since September 2008, ten nations committed to new IMF programs intended to provide balance of payments support. All face the task of tackling economic problems in a less benign global economic environment. Unlike the Asian financial crisis of 1997-98, the globally synchronized nature of this slowdown means that countries will not be able to export their way out of this recession. Indeed, policies designed to promote domestic export industries—so-called beggar-thy-neighbor policies such as competitive currency devaluations, import tariffs, and/or export subsidies—risk unleashing a wave of destructive protectionism.

Time is probably our greatest threat. The longer it takes for the recovery to begin, the greater the likelihood of serious damage to US strategic interests. Roughly a quarter of the countries in the world have already experienced low-level instability such as government changes because of the current slowdown. Europe and the former Soviet Union have experienced the bulk of the anti-state demonstrations. Although two-thirds of countries in the world have sufficient financial or other means to limit the impact for the moment, much of Latin America, former Soviet Union states and sub-Saharan Africa lack sufficient cash reserves, access to international aid or credit, or other coping mechanism. Statistical modeling shows that economic crises increase the risk of regime-threatening instability if they persist over a one to two year period. Besides increased economic nationalism, the most likely political fallout for US interests will involve allies and friends not being able to fully meet their defense and

humanitarian obligations. Potential refugee flows from the Caribbean could also impact Homeland security.

The dramatic decline in oil prices—more than a two-thirds decline from the July peak of \$147 per barrel—is partially a result of the market betting on a deep and perhaps protracted global recession. A serious supply crunch is possible down the road if sustained low prices lead to major cuts or delays in investment by national and international oil companies, especially high cost unconventional oil sources like oil sands. Nevertheless, lower prices benefit consumers, and declining revenues may put the squeeze on the adventurism of producers like Iran and Venezuela.

The crisis presents many challenges for the United States. It started in the United States, quickly spread to other industrial economies and then, more recently, to emerging markets. The widely held perception that excesses in US financial markets and inadequate regulation were responsible has increased criticism about free market policies, which may make it difficult to achieve long-time US objectives, such as the opening of national capital markets and increasing domestic demand in Asia. It already has increased questioning of US stewardship of the global economy and the international financial structure.

The November G-20 financial summit in Washington also elevated the influence of large, emerging market nations. As was the case in the Asian financial crisis, China has an opportunity to increase its prestige if Beijing can exert a stabilizing influence by maintaining strong import growth and not letting its currency slide. But the United State also has opportunities to demonstrate increased leadership domestically, bilaterally, and in multilateral organizations such as the WTO, APEC, and ASEAN. Recessions are a relative game, and historically the United States has proven more adroit at responding to them than most. The US tradition of openness, developed skills, and mobility probably puts it in a better position to reinvent itself. Moreover, in potentially leading recovery efforts in coordination with the G-20, Washington will have the opportunity to fashion new international global structures that can benefit all. Global coordination and cooperation on many fronts will be required to rebuild trust in the global financial system and to ensure that the economic and financial crises do not spiral into broader geopolitical tensions.

Turning the Corner on Violent Extremism

I next want to focus on extremist groups that use terrorism. The groups with the greatest capability to threaten are extremist Muslim groups. In 2008 terrorists did not achieve their goal of conducting another major attack in the US Homeland. We have seen notable progress in Muslim opinion turning against terrorist groups like al-Qa'ida. Over the last year and a half, al-Qa'ida has faced significant public criticism from prominent religious leaders and fellow extremists primarily regarding the use of brutal and indiscriminate tactics—particularly those employed by al Qa'ida in Iraq (AQI) and al-Qa'ida in the Lands of Islamic Maghreb (AQIM)—that have resulted in the deaths of Muslim civilians. Given the increased pressure posed by these criticisms, al-Qa'ida leaders increasingly have highlighted enduring support for the Taliban and the fight in Afghanistan and Pakistan and in other regions where they portray the West being at

war with Islam and al-Qa'ida as the vanguard of the global terrorist movement. A broad array of Muslim countries is nevertheless having success in stemming the rise of extremism and attractiveness of terrorist groups. No major country is at immediate risk of collapse at the hands of extremist, terrorist groups, although a number—such as Pakistan and Afghanistan—have to work hard to repulse a still serious threat. In the next section I will discuss at length the challenges facing us in Pakistan and Afghanistan where militant have gained some traction despite the successes against al-Qa'ida.

Because of the pressure we and our allies have put on al-Qa'ida's core leadership in Pakistan and the continued decline of al-Qa'ida's most prominent regional affiliate in Iraq, al-Qa'ida today is less capable and effective than it was a year ago.

In Pakistan's Federally Administered Tribal Areas (FATA), al-Qa'ida lost significant parts of its command structure since 2008 in a succession of blows as damaging to the group as any since the fall of the Taliban in late 2001. Key leaders killed over the past year include Khalid Habib, al-Qa'ida's military chief and the fourth man in its chain of command; Abu Layth al-Libi, who directed cross-border attacks against our forces in Afghanistan and was a rising star in the organization; Abu Khabab al-Masri, the group's leading expert on explosives and chemical attacks and a driving force behind its terrorist plotting against the US Homeland and Europe; and Usama al-Kini who was involved in the bombings of our Embassies in East Africa in 1998 and later became the chief planner of al-Qa'ida's terrorist attacks in Pakistan.

- The loss of these and many other leaders in quick succession has made it more difficult for al-Qa'ida to identify replacements, and in some cases the group has had to promote more junior figures considerably less skilled and respected than the individuals they are replacing.

Sustained pressure against al-Qa'ida in the FATA has the potential to further degrade its organizational cohesion and diminish the threat it poses. If forced to vacate the FATA and locate elsewhere, the group would be vulnerable to US or host-country security crackdowns as well as local resistance, and probably would be forced to adopt an even more dispersed, clandestine structure, making training and operational coordination more difficult. Without access to its FATA safehaven, al-Qa'ida also undoubtedly would have greater difficulty supporting the Taliban insurgency in Afghanistan. It is conceivable al-Qa'ida could relocate elsewhere in South Asia, the Gulf, or parts of Africa where it could exploit a weak central government and close proximity to established recruitment, fundraising, and facilitation networks, but we judge none of these locations would be as conducive to their operational needs as their location in the FATA.

In Iraq, we judge the maturation of the Awakening movement, Iraqi Security Forces gains, and the subsequent spread of Sons of Iraq (SOI) groups, in combination with Coalition operations against AQI leaders, have reduced AQI's operational capabilities and restricted the group's freedom of movement and sanctuaries. Nevertheless, we judge the group is likely to retain a residual capacity to undertake terrorist operations for years to come. I will focus on AQI in greater detail when I discuss Iraq.

Saudi Arabia's aggressive counterterrorism efforts since 2003 have rendered the Kingdom a harsh operating environment for al-Qa'ida, but Riyadh is now facing new external

threats from al-Qa'ida elements in the region, particularly from Yemen. Senior al-Qa'ida leaders are focused on resurrecting an operational presence due to Saudi security actions over the past five years that have resulted in the death or capture of most identified Saudi-based al-Qa'ida senior leaders and operatives. Senior al-Qa'ida leaders view the Kingdom as a strategic target owing to Bin Ladin's longstanding objective of unseating the al-Saud family and the symbolic value of attacking Western and Saudi targets in the land of the two holy mosques.

The Saudi Government counterterrorism approach includes law enforcement efforts coupled with a complementary long-term program to stem radicalization. Riyadh's multi-faceted "counter-radicalization" and "de-radicalization" strategy uses detainee rehabilitation programs, the media, and religious scholars to combat terrorism and build public support for its strong security posture.

Counterterrorism efforts by **Indonesia**, in some cases with US assistance, have led to the arrests and deaths of hundreds of Jemaah Islamiya (JI) operatives, including top leaders and key operatives. In November, Indonesia executed three JI terrorists—Imam Samudra, Mukhlas, and Amrozi—for their role in the 2002 Bali bombings. While the Intelligence Community continues to assess that JI in Indonesia and the Abu Sayyaf Group (ASG) in the Philippines are the two terrorist groups posing threats to US interests in Southeast Asia, efforts by Southeast Asian governments against both groups in the past few years have degraded their attack capabilities.

The primary threat from **Europe**-based extremists stems from al-Qa'ida and Sunni affiliates who return from training in Pakistan to conduct attacks in Europe or the United States. We have had limited visibility into European plotting, but we assess that al-Qa'ida is continuing to plan attacks in Europe and the West. Al-Qa'ida has used Europe as a launching point for external operations against the Homeland on several occasions since 9/11, and we believe that the group continues to view Europe as a viable launching point. Al-Qa'ida most recently targeted **Denmark** and the **UK**, and we assess these countries remain viable targets. Al-Qa'ida leaders have also prominently mentioned **France**, most likely in reprisal for the 2004 headscarf ban.

The social, political, and economic integration of Western Europe's 15 to 20 million Muslims is progressing slowly, creating opportunities for extremist propagandists and recruiters. The highly diverse Muslim population in Europe already faces much higher poverty and unemployment rates than the general population, and the current economic crisis almost certainly will disproportionately affect the region's Muslims. Numerous worldwide and European Islamic groups are actively encouraging Muslims in Europe to reject assimilation and support militant versions of Islam. Successful social integration would give most ordinary Muslims a stronger political and economic stake in their countries of residence, even though better educational and economic opportunities do not preclude radicalization among a minority. Visible progress toward an Arab-Israeli settlement, along with stability in Iraq and Afghanistan, would help undercut radicals' appeal to Muslim foreign policy grievances.

European governments are undertaking a wide range of policies to promote Muslim social integration and counter radicalization. In addition to pursuing socioeconomic initiatives aimed at all immigrants, **France**, **Germany**, **Italy**, and several smaller European countries have

established various types of religious-based consultative councils composed of leading Muslim groups. Additionally, the **United Kingdom** has established the most diversified and energetic official outreach program to Muslims, largely reflecting concern about homegrown terrorism since the July 2005 London attacks. Among other initiatives, the UK Government has promoted the creation of an advisory board on mosque governance, a committee of Muslim theologians, and consultative bodies of Muslim women and youth. It also has held multiple high profile conferences with Islamic scholars and government representatives from the Muslim world. British police have made a conscious decision to seek the cooperation of non-violent radicals even while political authorities have encouraged former radicals and Sufis to speak out against hardline political Islam.

Core Al-Qa'ida

Despite these successes, al-Qa'ida and its affiliates and allies remain dangerous and adaptive enemies, and the threat they could inspire or orchestrate an attack on the United States or European countries. Under the strategic direction of Usama Bin Ladin and his deputy, Ayman al-Zawahiri, al-Qa'ida remains intent on attacking US interests worldwide, including the US Homeland. Although al-Qa'ida's core organization in the tribal areas of Pakistan is under greater pressure now than it was a year ago, we assess that it remains the most dangerous component of the larger al-Qa'ida network. Al-Qa'ida leaders still use the tribal areas as a base from which they can avoid capture, produce propaganda, communicate with operational cells abroad, and provide training and indoctrination to new terrorist operatives.

- We lack insight into specific details, timing, and intended targets of potential, current US Homeland plots, although we assess al-Qa'ida continues to pursue plans for Homeland attacks and is likely focusing on prominent political, economic, and infrastructure targets designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks, and/or fear among the population.
- Increased security measures at home and abroad have caused al-Qa'ida to view the West, especially the United States, as a harder target than in the past, but we remain concerned about an influx of Western recruits into the tribal areas since mid-2006.
- Al-Qa'ida and its extremist sympathizers in Pakistan have waged a campaign of deadly and destabilizing suicide attacks throughout Pakistan, including the bombing of the Marriott Hotel in Islamabad in September, which killed 60 people and wounded hundreds.

AQIM. Al-Qa'ida's other robust affiliate, al-Qa'ida in the Lands of the Islamic Maghreb, is the most active terrorist group in northwestern Africa and, in our assessment, represents a significant threat to US and Western interests in the region. AQIM has continued to focus primarily on Algerian Government targets, but since its merger with al-Qa'ida in September 2006 the group has expanded its target set to include US, UN, and other Western interests and has launched progressively more sophisticated attacks, employing vehicle-borne improvised explosive device (VBIEDs), near-simultaneous bombings, and suicide bombings.

- AQIM has conducted nearly a dozen attacks against Western targets to include a near-simultaneous VBIED attack against United Nations facilities and the Algerian Constitutional

Court in Algiers in December 2007, killing at least 47 and wounding more than 100. AQIM associates also attacked the Israeli Embassy in Mauritania in February 2008.

- AQIM Europe-based cells act as financial support and facilitation nodes, but these cells could possibly become operational at the direction of AQIM leadership.

We assess that over the next year AQIM will continue to demonstrate its increased capability and commitment to senior al-Qa'ida leadership by attacking local and Western interests throughout North Africa and the Sahel. AQIM traditionally has operated in Algeria and northern Mali and has recruited and trained an unknown number of extremists from Tunisia, Morocco, Nigeria, Mauritania, Libya, and other countries. We assess some of these trainees may have returned to their home countries to plot attacks against local and Western interests.

Al-Qa'ida in Yemen. Yemen is reemerging as a jihadist battleground and potential regional base of operations for al-Qa'ida to plan internal and external attacks, train terrorists, and facilitate the movement of operatives. Al-Qa'ida leaders could use al-Qa'ida in Yemen and the growing presence of foreign jihadists there to supplement its external operations agenda, promote turmoil in Saudi Arabia, and weaken the Salih regime.

- Al-Qa'ida in Yemen on 17 September 2008 conducted an attack against the US Embassy in Sana'a. The coordinated attack used two explosives-laden vehicles, suicide bombers, and small-arms fire and killed six guards and four civilians. As of September 2008, the group had conducted 20 attacks against US, Western, and Yemeni targets, most carried out by the splinter faction, Jund al-Yemen.

East Africa. We judge the terrorist threat to US interests in East Africa, primarily from al-Qa'ida and al-Qa'ida-affiliated Islamic extremists in Somalia and Kenya, will increase in the next year as al-Qa'ida's East Africa network continues to plot operations against US, Western, and local targets and the influence of the Somalia-based terrorist group al-Shabaab grows. Given the high-profile US role in the region and its perceived direction—in the minds of al-Qa'ida and local extremists—of foreign intervention in Somalia, we assess US counterterrorism efforts will be challenged not only by the al-Qa'ida operatives in the Horn, but also by Somali extremists and increasing numbers of foreign fighters supporting al-Shabaab's efforts.

The Homegrown Threat

We judge any homegrown extremists in the United States do not yet rise to the numerical level or exhibit the operational tempo or proficiency we have seen in Western Europe. A range of factors inside the United States may contribute to a lower incidence of homegrown cells developing. Nevertheless, we remain concerned about the potential for homegrown extremists inspired by al-Qa'ida's militant ideology to plan attacks inside the United States, Europe, and elsewhere without operational direction from the group itself. In this regard, over the next year we will remain focused on identifying any ties between US-based individuals and extremist networks overseas. Though difficult to measure, the spread of radical Salafi Internet sites that provide religious justification for attacks; aggressive and violent anti-Western rhetoric; and signs that self-generating cells in the US identify with Bin Ladin's violent objectives all point to the likelihood that a small but violent number of cells may develop here.

- Al-Qa'ida's propaganda efforts include messages in English and those aimed specifically at an American audience either in translated form or directly by al-Qa'ida's second-in-command, Ayman al-Zawahiri, such as with his November 2008 video message following the US Presidential elections. US-born al-Qa'ida members such as Adam Gadahn, who was indicted by a US grand jury in October 2006 on charges of treason, providing material support to a designated foreign terrorist organization, and aiding and abetting terrorists, also participated in making these English-language propaganda messages.

The Threat from Lebanese Hizballah

Lebanese Hizballah continues to be a formidable terrorist adversary with an ability to attack the US Homeland and US interests abroad. Hizballah is a multifaceted, disciplined organization that combines political, social, paramilitary, and terrorist elements, and we assess that any decision by the group to resort to arms or terrorist tactics is carefully calibrated. At the same time, we judge armed struggle, particularly against Israel, remains central to Hizballah's ideology and strategy.

We assess Lebanese Hizballah, which has conducted anti-US attacks overseas in the past, may consider attacking US interests should it perceive a direct US threat to the group's survival, leadership, or infrastructure or to Iran. However, we judge Hizballah would carefully weigh the decision to take any action against the United States. Hizballah probably continues to support proxy groups and individuals, which could provide the group plausible deniability for possible attacks against the West or Israel.

We assess Hizballah anticipates a future conflict with Israel and probably continues to implement lessons learned from the conflict in the summer of 2006. In a potential future conflict, Hizballah is likely to be better prepared and more capable than in 2006.

The “Arc of Instability”

The large region from the Middle East to South Asia is the locus for many of the challenges facing the United States in the twenty-first century. While we are making progress countering terrorism, the roots and the issues related to the many problems in this region go deeper and are very complicated. The United States has strong tools—from military force to diplomacy in the region and good relationships with the vast majority of states. There is almost universal recognition that the United States is vital to any solutions, and these can be brought to bear in ways that benefit the United States and the region. I will begin with looking at individual states, but the Intelligence Community analysis I present here emphasizes the regional linkages exacerbating problems and providing opportunities that are available for tackling the problems.

The Changing Geopolitical Landscape in the Middle East

In the Middle East, the revival of Iran as a regional power, the deepening of ethnic, sectarian, and economic divisions across much of the region, and looming leadership succession among US allies are shaping the strategic landscape. Hizballah and HAMAS have successfully seized the mantle of resistance to Israel from moderate regimes with secular Arab nationalists being discredited in the popular mind. Battle lines are increasingly drawn not just between Israel

and Arab countries but also between secular Arab nationalists and ascendant Islamic nationalist movements inside moderate Arab states. Iran's influence in Iraq, its enduring strategic ties to Syria, pursuit of a nuclear weapons capability, and the success of Tehran's allies—HAMAS and Hizballah—are fueling Iran's aspirations for regional preeminence. Arab Sunni leaders are struggling to limit Iran's gains; Saudi Arabia's more activist regional diplomacy falls short of significantly constraining Iran's freedom of maneuver. Iran's ambitions combined with unresolved conflicts in Iraq, Lebanon, and the Palestinian territories represent the principal flashpoints for intensified conflict in the region.

Iran's longstanding foreign policy goals are to preserve the Islamic regime, safeguard Iran's sovereignty, defend its nuclear ambitions, and expand its influence in the region and the Islamic world. Iranian leaders perceive that regional developments—including the removal of Saddam and the Taliban, challenges facing the United States in Iraq and Afghanistan, the increased influence of HAMAS and Hizballah, and, until recently, higher oil revenues—have given Tehran more opportunities and freedom to pursue its objective of becoming a regional power. This perception has produced a more assertive Iranian foreign policy in which Tehran has focused on expanding ties in Iraq, Afghanistan, and the Levant to better influence and exploit regional political, economic, and security developments. Iraq's pursuit of nuclear weapon capability is another element in its more assertive foreign policy—an aspect that I will discuss later.

In Tehran, Iran's conservative faction continues to dominate the government. Supreme Leader Khamenei has consolidated political power in his office, but his reliance on hardline conservative elements—the IRGC, war veterans turned politicians such as President Mahmud Ahmadi-Nejad, and selected clerics—to bolster his authority has upset the earlier factional balance in Iranian politics.

- Although the regime still comprises many competing factions, only those that support the concept of a powerful Supreme Leader and advocate revolutionary values now have a significant voice in decisionmaking.

President Ahmadi-Nejad faces less than certain prospects for reelection in June because his management of the economy and aggressive foreign policy rhetoric have become sources of significant domestic criticism and political friction. Ahmadi-Nejad's economic policies have reduced unemployment marginally, but have fueled significant inflation, providing his critics ample ammunition to question his competence. The sharp fall in global oil prices will add to Iran's economic problems, but Tehran has a substantial cushion of foreign reserves to support social and other spending priorities. Less energy revenues may also help to dampen its foreign policy adventurism.

We expect Khamenei will attempt to manipulate the presidential election, largely by limiting the range of candidates. As he has in past elections, the Supreme Leader probably will attempt to influence the decisions of individuals to run, monitor the vetting and approval of candidates, and influence media coverage of the campaign.

- We do not know if Khamenei will actively support Ahmadi-Nejad's re-election. The Supreme Leader publicly has expressed support for Ahmadi-Nejad's administration, but we judge his statements are intended more to minimize criticisms of the regime than to endorse the President.
- Although we expect that whoever is elected will be a strong supporter of the Islamic Republic, we note that the election of a more pragmatic figure may, over time, produce some moderation of Iranian behavior by introducing into the decisionmaking process a wider range of options than those presented under Ahmadi-Nejad.

Militarily, Iran continues to strengthen the three pillars of its strategic deterrence: surface-to-surface missiles, long-range rockets and aircraft for retaliation; naval forces to disrupt maritime traffic through key waterways; and unconventional forces and surrogates to conduct worldwide lethal operations. Although many of their statements are exaggerations, Iranian officials throughout the past year have repeatedly claimed both greater ballistic missile capabilities that could threaten US and allied interests and the ability to close the Strait of Hormuz using unconventional small boat operations, anti-ship cruise missiles, and other naval systems. Some officials, such as Islamic Revolutionary Guard Corps Commander Major General Mohammad Ali Jafari-Najafabadi, have hinted that Iran would have a hand in attacks on "America's interests even in far away places," suggesting Iran has contingency plans for unconventional warfare and terrorism against the United States and its allies.

Iran's goals in Iraq include preventing the emergence of a threat from Iraqi territory, either from the government of Iraq itself, or from the United States. To achieve this, Iran probably seeks a government in Baghdad in which Tehran's Shia allies hold the majority of political, economic, and security power. Iran also has sought to make the United States suffer political, economic, and human costs in order to limit US engagement in the region and to ensure that Washington does not maintain a permanent military presence in Iraq or use its military to pressure or attack Iran.

- Iranian efforts to secure influence in Iraq encompass a wide range of activities, including using propaganda, providing humanitarian assistance, building commercial and economic ties, and supporting Shia elements fighting the Coalition. Iran has provided a variety of Shia militants with lethal support including weapons, funding, training, logistical and operational support, and intelligence training.
- We judge Iran will continue to calibrate its lethal aid to Iraqi Shia militants based on the threat it perceives from US forces in Iraq, the state of US-Iran relations, Tehran's fear of a Ba'thist resurgence, Tehran's desire to help defend Iraqi Shia against sectarian violence, and to maintain the ability to play a spoiler role in Iraq if Iran perceives the government of Iraq has become a strategic threat.
- Despite Tehran's efforts, we judge Iraqi nationalism and the growing capabilities of the Iraqi government will limit Iranian influence in Iraq. Baghdad, for example, signed the US-Iraq security agreement despite Iranian opposition.

In Afghanistan, Iran has focused on promoting a friendly central government in Kabul and limiting Western power and influence. Iran's policy in Afghanistan follows multiple tracks, including providing political and economic support to the Karzai government and developing relationships with actors across the political spectrum.

- Iran has opposed Afghan reconciliation talks with the Taliban as risking an increase in the group's influence and legitimacy.
- We judge Iran distrusts the Taliban and opposes its return to power but uses the provision of lethal aid as a way to pressure Western forces, gather intelligence, and build ties that could protect Iran's interests if the Taliban regains control of the country.

In the Levant, Tehran is focused on building influence in Lebanon and expanding the capability of key allies. Tehran continues to support groups such as Hizballah, HAMAS, and Palestine Islamic Jihad (PIJ), which it views as integral to its efforts to challenge Israeli and Western influence in the Middle East.

- Hizballah is the largest recipient of Iranian financial aid, training, and weaponry, and Iran's senior leadership has cited Hizballah as a model for other militant groups. We assess Tehran has continued to provide Hizballah with significant amounts of funding, training, and weapons since the 2006 conflict with Israel, increasing the group's capabilities to pressure other Lebanese factions and to threaten Israel.
- Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel and oppose the Palestinian Authority.

Worsening Conflict in the Levant

The Palestinian Territories and Lebanon are two places where the multifaceted connections of which I spoke are most pronounced in this arc of instability. Two non-state actors, HAMAS and Hizballah, play prominent roles, while individual states that oppose US interests, such as Iran and Syria, also are prominent. In both these countries, we worry about worsening conflict and the potential for growing violent extremism.

Fighting between Israel and HAMAS in the Gaza Strip subsided in mid-January, leaving in its wake hardened attitudes among Israelis and Palestinians, deepened Palestinian political divisions, and a widened rift between regional moderates—led by Egypt, Saudi Arabia, and Jordan—and hardliners, including Iran, Hizballah, and Syria. A key challenge for US policy in the coming year will be finding ways to strengthen moderates and renew the potential for peace negotiations, lest post-conflict division and anger in the region further diminish prospects for peace.

With HAMAS in control of Gaza and Hizballah growing stronger in Lebanon, progress on a Palestinian- Israeli accord is growing more difficult. With Iran developing a nuclear weapon capability and Israel determined not to allow it, there is potential for an Iran-Israeli confrontation or crisis on that issue as well. Moderate Arab states fear a nuclear-armed Iran,

want progress on Palestinian settlement—the absence of which deprives US Arab allies of crucial political capital to defend strategic ties to the US and wish to sustain a moderate, state-centered politics for the region. Progress on the Israeli-Palestinian peace track would increase opportunities for the US to broaden its engagement with Arab publics, including those aligning with the growing ideology of Islamic nationalism.

- The Israeli public appears broadly supportive of Israel’s military action and believes Israel must act decisively to prevent attacks from Palestinian-controlled territory. At the same time, Israel’s military actions in Gaza have deepened Palestinian anger towards Israel, both in the Gaza Strip and in the West Bank, and sparked outrage and protests throughout the Arab and Muslim world.
- HAMAS and the Palestinian Authority are engaged in an intense competition, with both sides seeking to emerge from the conflict in a stronger political position, but relations between the two organizations have been further embittered by the crisis. The Palestinian Authority (PA) accused HAMAS of needlessly provoking an Israeli attack and HAMAS, which has argued it “won” by surviving the operation and continuing its control of Gaza, accused the PA of essentially collaborating with the Israeli assault.
- The moderate Arab states and regional hardliners are competing to shape the regional developments and public attitudes in the aftermath of the Gaza crisis. The moderates seek a reconciliation of the Palestinian factions and the resumption of peace talks between Israel and the Palestinians, while hardliners are encouraging HAMAS to retain its uncompromising stance toward Israel. These opposing regional blocs are competing to take the lead in delivering humanitarian aid to Palestinians in Gaza. Moderate states support US efforts to establish a ceasefire and border security regime that will prevent the rearming of HAMAS, while Iran is likely to lead an effort to provide weapons to HAMAS to build the group’s military capabilities.

Tensions between **HAMAS and Fatah** have been elevated since HAMAS seized control of the Gaza Strip in June 2007, and efforts to achieve reconciliation have failed. Both factions continue to attack, harass, and detain members of the other group in the West Bank and the Gaza Strip, deepening mutual resentment and making an accord between them difficult. Reconciliation talks between Fatah and HAMAS scheduled for November in Cairo did not occur because HAMAS refused to attend the meetings, in part to protest ongoing PA security measures in the West Bank targeting its members.

- Disagreement between Fatah and HAMAS about a range of issues such as the timing of national elections and formation of a unity government could lead HAMAS to challenge the legitimacy of Abbas’s government and will remain obstacles to Fatah-HAMAS reconciliation.

In 2008, longstanding tensions worsened between anti-democratic Fatah elements, mostly but not exclusively the so-called “old-guard” and typically younger elements demanding internal reforms within the faction, worsened in 2008 amid discussions over the location of and attendance at Fatah’s long-delayed sixth General Congress. These internal conflicts threaten to

fracture the party and damage its prospects in the run-up to PA presidential and legislative elections in 2009 or early 2010. There is no consensus among Fatah officials regarding a replacement for President Abbas, who has not groomed a successor, and no potential leader has gained Fatah's full support.

In **Lebanon**, after a long stalemate, the political process showed some movement last year that reasserted a fragile consensus giving Hizballah and the opposition veto power in the Lebanese Government. The Doha Accord in May ended armed clashes between Hizballah and Lebanese civilians and 18 months of political stalemate. The accord also paved the way for the election of former Lebanese Armed Forces (LAF) Commander Michel Sulayman as President on 25 May 2008. Sulayman has positioned himself as a consensus-builder between the 14 March Coalition and the Hizballah-led opposition and has made progress on some issues, including forming the national unity cabinet, drafting the cabinet statement, and reforming the electoral law.

- The Lebanese political scene has enjoyed a period of relative calm and reconciliation since May, probably because all Lebanese parties are focused on preparing and forging alliances for the National Assembly election in June 2009. Lebanese Christian voters, divided between the two political camps, will be decisive in determining who wins a majority in the election.

The security situation remains fragile in Lebanon, especially in the north, which saw fighting between the Sunni and Alawi communities last summer. The Hizballah-initiated violence in May has left all sectarian groups—the Sunnis in particular—concerned about their security. The LAF's limited response and the Hizballah-led opposition's military strength have reinforced the view that sectarian communities must defend themselves. All sides are working to develop sectarian-based militia forces. Hizballah continues to bolster its military strength; since the 2006 war, the group has rearmed and trained additional personnel in preparation for possible future conflict with Israel.

Hizballah's attempts to reconcile with other Lebanese parties are an effort to show the group's commitment to a Lebanese nationalist agenda in preparation for the election. They are also meant to reduce the damage done to Hizballah's image by its armed takeover of parts of Beirut in May.

Since becoming President of **Syria** in June 2000, Bashar al-Asad has strengthened his hold on power in Syria. Asad's standing has been augmented by his perceived success in weathering regional crises and international pressure and by the regime's ability to highlight Syria's relative insulation from violence in Iraq and Lebanon. Within Syria, Asad has preserved the pillars of regime control established by his father while gradually using personnel turnover to appoint loyalists and expand his power base.

- Syrian leaders continue to exploit "resistance" to Israel and rejection of US pressure to unify Syrians in support of the regime, despite broad dissatisfaction with economic conditions, some disappointment at the lack of political reforms, and quiet resentment by some Sunnis at domination by the Alawi minority.

Damascus continues efforts to cement its influence in Lebanon by providing economic and other support to its allies in the Lebanese opposition. Syria has exploited its role in helping secure the May 2008 Doha agreement, which ended Lebanon's political violence last spring and ushered in a unity government, to improve relations with Europe and moderate Arab states. Syria is poised to appoint an ambassador to Lebanon, and we judge Syria will continue to interfere in Lebanese affairs in pursuit of its own interests.

Syrian military cooperation with Iran, including trilateral cooperation with Hizballah, has increased during the past year. Syria views its links to Iran as a means to press and deter adversaries, particularly Israel, and create leverage for achieving its major goals of a lead role in the Arab world, maintaining influence in Lebanon, and regaining the Golan Heights. For Syria's part, Iran has proven over the last quarter century to be Syria's most reliable ally. Shared interests over the past few years—support for Lebanese Hizballah, sustaining Palestinian terrorists, and countering US regional intentions—have drawn Iran and Syria toward a closer alliance. Syrian military support to Hizballah has increased substantially over the past five years, especially since the 2006 Israel-Hizballah war. Damascus also supports Palestinian rejectionist groups, such as HAMAS, which base their external leadership in Syria.

Syria probably will adjust its approach to the Iraq insurgency as Iraq's situation evolves. As the United States withdraws, we assess Damascus will seek improved political and economic ties to Baghdad and is likely to support oppositionists opposed to a long-term US presence in Iraq. Syria will remain the primary gateway for foreign fighters entering Iraq. Syria condemned the 26 October 2008 US raid that targeted AQI foreign fighter facilitator Abu Ghadiyah and staged a temporary removal of some border guard forces. Damascus also closed US institutions in Syria, including the Damascus Community School and the American Cultural Center.

A More Stable Iraq as Counterbalance

The positive security trends over the past year have endured and expanded, and a more stable Iraq could counterbalance other negative trends in the region. Extremists in Iraq have been largely sidelined by Coalition and Iraqi operations and dwindling popular tolerance for violence, and their attacks are no longer a major catalyst for sectarian violence. Iraqis now are less inclined to resolve their differences through unsanctioned violence, and fewer Iraqis are dying at the hands of their countrymen than at any time in the past two years. Indeed, communal violence is now at the lowest sustained levels since Prime Minister Nuri al-Maliki's government came to power. Improving security conditions in Iraq have given the Prime Minister an opportunity to assert authority in previously denied areas of the country. Meanwhile, the maturation of the Awakening movement, Iraqi Security Forces (ISF) gains, and the subsequent spread of Sons of Iraq groups, in combination with Coalition operations against AQI leaders, have weakened AQI by largely forcing it out of strongholds such as Al Anbar and much of greater Baghdad.

The main factors that have contributed to these positive trends are as follows:

- First, Coalition operations and population security measures have been critical to reducing violence in Iraq. We judge Coalition support in the form of a credible, politically neutral security guarantor also has facilitated the ISF's ability to deal with ethnosectarian issues.

- Second, the Sunni insurgency has continued to wane. Most Iraqi-led Sunni insurgent groups have largely suspended operations against the Coalition, favoring engagement with the United States to protect their communities, to oppose AQI, or protect against feared domination by the Iraqi Government, although many are hedging by maintaining their organizational structures and access to weapons.
- Third, the threat from AQI has continued to diminish. AQI, although still dangerous, has experienced the defection of members, lost key mobilization areas, suffered disruption of support infrastructure and funding, and been forced to change targeting priorities. Indeed, the pace of suicide bombings countrywide, which we consider one indicator of AQI's operational capability, fell significantly during the last year.
- Fourth, the threat of violence from most Shia militants has declined. Many Shia who looked upon Sadr's Jaysh al-Mahdi (JAM) in early 2008 as defenders against Sunni extremists eventually came to see the JAM as pariahs, leading Muqtada al-Sadr to announce last summer that most of his thousands-strong militia would set aside their weapons to become a cultural organization and a counterweight to Western influence. Some Shia militant groups such as Sadrist-affiliated groups and Kata'ib Hizballah (KH) probably will continue anti-Coalition attacks and may engage in sporadic violence against Iraqi Government targets.
- Lastly, the capabilities of the ISF have continued to improve. The ISF's increasing professionalism and improvements in warfighting skills have allowed it to assume more responsibility for Iraq's internal security, as demonstrated by the successful operations against Shia militants in Al Basrah, Sadr City, and Al 'Amarah, and against Sunni extremists in Diyala and Mosul. Despite these improvements, the ISF remains dependent on the US for enabling capabilities such as logistics, fire support, and intelligence.

We assess political and security progress could be halted or even reversed by a number of factors, particularly if these challenges occur in combination.

- *Disputed internal boundaries.* Resolving disputed boundaries, primarily in northern Iraq, probably will be the most fiercely contested political issue to face Iraq in the next several years and poses the greatest threat to government stability.
- *Perceptions of Iraqi Government repression.* Policies or actions of the Iraqi Government perceived by segments of Iraq's ethnosectarian population to represent a broad and enduring campaign of repression could lead to widespread violence.
- *Increased foreign support to insurgent or militia groups.* We judge a large infusion of foreign support could deepen and intensify the ensuing conflict if Iraqi militants and insurgents sought external assistance to challenge or destabilize the Iraqi Government.

In addition to these challenges, Baghdad will confront more difficult choices about spending priorities as a result of declining oil revenues as it simultaneously grapples with security force modernization, infrastructure investment, and expanding public payrolls. Iraq's

economy will continue to depend heavily on hydrocarbon exports, government spending, and continued security improvements.

We judge Iran will expand political and economic ties to Baghdad and will continue to supply weapons and training to Shia militants to counter a Sunni resurgence, maintain leverage in Iraq, and keep pressure on US forces. Iraqi nationalism, however, acts as a check on Iran's ability to project power in Iraq. Syria will focus on improving relations with Baghdad and seek increased trade and energy exports but also will continue to support Ba'athists and other non-AQI Sunni oppositionists to try to gain leverage in Iraq. Turkey will continue to focus on countering the Kurdistan People's Congress, a Kurdish terrorist group based in northern Iraq. The Turkish military continues to conduct cross-border air and artillery strikes in northern Iraq against the Kurdistan People's Congress (KGK, formerly PKK), a Kurdish terrorist organization waging armed conflict against Turkey. The KGK appears to retain the desire to attack Turkish targets. In early October 2008, the KGK launched an attack on a Turkish military outpost that left 17 Turkish troops dead.

- Turkish officials met with Kurdistan Regional Government President Barzani in October 2008, opening the prospect of closer ties between Turkey and the KRG. Like the rest of Europe, the Turkish economy is feeling the effects of the global financial crisis. In mid-November, Standard and Poor's downgraded Turkey's credit outlook from stable to negative.

Iraq's Sunni Arab neighbors are starting to reestablish an Arab presence in Baghdad, but Arab engagement is likely to be slow and halting over the next year. Jordan's King Abdallah in August became the first Arab head of state to travel to Baghdad since the fall of Saddam; he dispatched an Ambassador to Iraq in October.

Afghan-Pakistani Linkages

In the past year, **Afghanistan's** Taliban-dominated insurgency has increased the geographic scope and frequency of attacks. Taliban reaction to expanded Afghan and NATO operations account for some of the increase in violence, but insurgents also have demonstrated greater aggressiveness and more lethal tactics. Efforts to improve governance and extend development were hampered in 2008 by a lack of security in many areas and a general lack of government capacity and competency. The ability of the Afghan government, NATO, and the United States to push back the Taliban and deliver security, basic governance, and economic development will determine the continued support of the Afghan people for the government and the international community. Afghan leaders also must tackle endemic corruption and an extensive drug trade, which erode the capacity of the government while diminishing public confidence in its already fragile institutions.

Specifically, the security situation has deteriorated in many eastern areas of the country and in the south and northwest. Taliban and affiliated insurgent groups have expanded operations into previously peaceful areas of the west and around Kabul. The Taliban-dominated insurgency has expanded in scope despite International Security Assistance Force (ISAF) and Operation Enduring Freedom military operations targeting insurgent command and control networks.

Continued progress has been made in expanding and fielding the Afghan National Army, but the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of independent action. The Afghan National Police remains a largely untrained force with high rates of corruption and absenteeism. Limitations to training, mentoring, and equipping combined with an ineffective Ministry of Interior and large parts of the country that have not been effectively “cleared” hinder the progress and effectiveness of the policy.

Kabul in 2009 must work closely with the national legislature and provincial and tribal leaders to establish and extend the capacity of the central and provincial government. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level. In addition, continued attacks undercut the national government’s image as a viable guarantor of security, persuading tribal and other influential non-state actors to either remain neutral or back insurgents. The 2009 presidential election will present a greater security challenge than the 2004 election, and the insurgents probably will make a concerted effort to disrupt it.

Kabul’s inability to build effective, honest, and loyal provincial and district level institutions capable of providing basic services and sustainable, licit livelihoods erodes its popular legitimacy and increases the influence of local warlords and the Taliban. The Afghan government has launched some initiatives, such as the Independent Directorate of Local Governance (IDLG), to address governance shortcomings, but corruption has exceeded culturally tolerable levels and is eroding the legitimacy of the government. Both law enforcement and judicial capacity, although somewhat improved, remain limited, and Kabul remains constrained in its ability to deploy programs at the provincial and local levels.

The Afghan government has no coherent tribal engagement strategy, but where Pashtun tribal and government interests intersect, gains in local security, stability, and development are possible. At the provincial level, governors who have proven themselves effective mediators of local disputes among tribes and other local groups in their respective jurisdictions garner support from Afghan audiences and the donor community.

The Afghan drug trade is a major source of revenue for corrupt officials, the Taliban and other insurgent groups operating in the country and is one of the greatest long-term challenges facing Afghanistan. The insidious effects of drug-related criminality continue to undercut the government’s ability to assert its authority outside of Kabul, to develop a strong, rule-of-law based system, and to rebuild the economy. Despite decreases in poppy cultivation in 2008, opium production in Afghanistan remains historically high, and the country produces over 90 percent of the world’s supply with 95 percent of the crop grown in five contiguous provinces of southwestern Afghanistan and over 60 percent in one province alone, Helmand. In 2008, farmers grew 157,300 hectares of poppy, potentially producing an estimated 7,700 metric tons of opium. Almost every province outside the southwest was either poppy-free or had a dramatic decrease in cultivation, due to a combination of effective local anti-poppy campaigns, better security unfavorable weather, and decreased opium prices relative to other crops, and improved governance and security in key provinces. The United Nations estimates that the total value to agricultural producers of Afghan opium in 2008 was \$730 million—although the gap in

profitability has narrowed. No improvement in the security in Afghanistan is possible without progress in Pakistan.

No improvement in Afghanistan is possible without **Pakistan** taking control of its border areas and improving governance, creating economic and educational opportunities throughout the country. The government is losing authority in parts of the North-West Frontier Province and has less control of its semi-autonomous tribal areas: even in the more developed parts of the country, mounting economic hardships and frustration over poor governance have given rise to greater radicalization.

In 2008 Islamabad intensified counterinsurgency efforts, but Islamabad's record in dealing with militants has been mixed as it navigates conflicting internal and counterterrorist priorities. While some of the country's civilian and military leaders recognize the threat that the growing militancy poses, many government leaders tolerate or employ militant groups as important policy instruments for maintaining stability in western Pakistan or exerting pressure on Kabul or New Delhi.

Pakistan's leaders are facing enormous socio-economic challenges. Economic hardships are intense, and the country is now facing a major balance of payments challenge. Islamabad needs to make painful reforms to improve overall macroeconomic stability. Pakistan's law-and-order situation is dismal, affecting even Pakistani elites, and violence between various sectarian, ethnic, and political groups threatens to escalate. Pakistan's population is growing rapidly at a rate of about 2 percent a year, and roughly half of the country's 172 million residents are illiterate, under the age of 20, and live near or below the poverty line. Among the needed reforms are measures to improve the transparency of government expenditures and impose taxes on wealthy landowners. Such reforms would reduce the opportunities for corruption among Pakistani political leaders, help to establish a more level political playing field, and help build the confidence of average Pakistanis in their government.

The Pakistani Government's current plans will require intensified and sustained efforts to orchestrate the administrative, economic, educational, legal, and social reforms required to create an environment that discourages Islamic extremism and encourages the development of human capital. This, in turn, requires effective political leadership focused on improving the capabilities of Pakistani institutions for effective governance.

WMD Proliferation Exacerbating Prospects for Middle East

The ongoing efforts of nation-states to develop and/or acquire dangerous weapons and delivery systems in the Middle East and elsewhere constitute another major threat to the safety of our nation, our deployed troops, and our allies. (The threat posed by North Korea's WMD program is assessed below, in the section on Asia.) We are most concerned about the threat and destabilizing effect of nuclear proliferation. The threat from the proliferation of materials and technologies that could contribute to both existing and prospective biological and chemical weapons programs also is real. Most of the international community shares these concerns.

WMD use by most nation states traditionally has been constrained by the logic of deterrence and by diplomacy, but these constraints may be of less utility in preventing the use of

mass-effect weapons by terrorist groups. Moreover, the time when only a few states had access to the most dangerous technologies is long over. Technologies, often dual-use, circulate easily in our globalized economy, as do the personnel with scientific expertise who design and use them. Therefore, it is difficult for the United States and its partners to track efforts to acquire components and production technologies that are widely available.

We assess countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. Nuclear, chemical, and/or biological weapons or the production technologies and materials necessary to produce them may also be acquired by states that do not now have such programs; and/or by terrorist or insurgent organizations; and by criminal organizations, acting alone or through middlemen.

Iranian Nuclear and Missile Programs. The Iranian regime continues to flout UN Security Council restrictions on its nuclear programs. There is a real risk that its nuclear program will prompt other countries in the Middle East region to pursue nuclear options conducive to the development of nuclear weapons, and the advent of additional nuclear weapons programs might lead countries in other regions to reassess their nuclear options.

I want to be very clear in characterizing the Iranian nuclear program. First, there are three key parts to an effective nuclear weapons capability:

- (1) Production of fissile material,
- (2) Effective means for weapon delivery, and
- (3) Design, weaponization, and testing of the warhead itself.

We assessed in our 2007 NIE on this subject that Iran's nuclear weapon design and weaponization work was halted in fall 2003, along with its covert uranium conversion and enrichment-related activities. Declared uranium enrichment efforts were suspended in 2003 but resumed in January 2006 and will enable Iran to produce weapons-usable fissile material if it chooses to do so. Development of medium-range ballistic missiles, inherently capable of delivering nuclear weapons, has continued unabated.

We assess Iranian military entities were working under government direction to develop nuclear weapons until fall 2003. Iranian entities are continuing to develop a range of technical capabilities that could be applied to producing nuclear weapons, if a decision were made to do so.

- Iran continues its efforts to develop uranium enrichment technology, which can be used both to produce low-enriched uranium for power reactor fuel and to produce highly enriched uranium for nuclear weapons.
- As noted, Iran continues to deploy and improve ballistic missiles inherently capable of delivering nuclear weapons.

- We assess Iran since fall 2003 has conducted research and development projects with commercial and conventional military applications, some of which would be of limited use for nuclear weapons.

We judge in fall 2003 Tehran halted its nuclear weapons design and weaponization activities and that the halt lasted at least several years. We assess Tehran had not restarted these activities as of at least mid-2007. Although we do not know whether Iran currently intends to develop nuclear weapons, we assess Tehran at a minimum is keeping open the option to develop them.

We judge the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work. This indicates Iran may be more susceptible to influence on the issue than we had judged in the 2005 National Intelligence Estimate.

We do not have sufficient intelligence reporting to judge confidently whether Tehran is willing to maintain indefinitely the halt of its previously enumerated nuclear weapons-related activities while it weighs its options, or whether it will or already has set specific deadlines or criteria that will prompt it to restart those activities. We assess Iran has the scientific, technical, and industrial capacity eventually to produce nuclear weapons. In our judgment, only an Iranian political decision to abandon a nuclear weapons objective would plausibly keep Iran from eventually producing nuclear weapons—and such a decision is inherently reversible. I reiterate that two activities of the three relevant to a nuclear weapons capability continue: development of uranium enrichment technology that will enable production of fissile material, if Iran chooses to do so, and development of nuclear-capable ballistic missile systems.

We assess convincing the Iranian leadership to forgo the eventual development of nuclear weapons will be difficult given the linkage many within the leadership see between nuclear weapons and Iran's key national security and foreign policy objectives, and given Iran's considerable effort from at least the late 1980s to 2003 to develop such weapons. Our analysis suggests that some combination of threats of intensified international scrutiny and pressures, along with opportunities for Iran to achieve its security and goals might—if perceived by Iran's leaders as credible—prompt Tehran to extend the halt to the above nuclear weapons-related activities. It is difficult to specify what such a combination might be.

We continue to assess Iran does not currently have a nuclear weapon. We continue to assess Iran probably has imported at least some weapons-usable fissile material but still judge it has not obtained enough for a nuclear weapon. We cannot rule out that Iran has acquired from abroad or will acquire in the future a nuclear weapon or enough fissile material for a weapon. Barring such acquisitions, if Iran wants to have nuclear weapons it would need to produce sufficient amounts of fissile material indigenously. We judge it has not yet done so.

Iran made significant progress in 2007 and 2008 installing and operating centrifuges at its main centrifuge enrichment plant, Natanz. We judge Iran probably would be technically capable of producing enough highly enriched uranium (HEU) for a weapon sometime during the 2010-

2015 time frame. INR judges Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems.

Iranian Missile Threat. Beyond its WMD potential, Iranian conventional military power threatens Persian Gulf states and challenges US interests. Iran is enhancing its ability to project its military power, primarily with ballistic missiles and naval power, with the goal of dominating the Gulf region and deterring potential adversaries. It seeks a capacity to disrupt the operations and reinforcement of US forces based in the region, potentially intimidating regional allies into withholding support for US policy, and raising the political, financial, and human costs to the United States and our allies of our presence.

- Iran's growing inventory of ballistic missiles—it already has the largest inventory in the Middle East—and its acquisition of anti-ship cruise missiles 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 same strategy.

The Terrorist CBRN Threat. Over the coming years, we will continue to face a substantial threat, including in the US Homeland, from terrorists attempting to acquire biological, chemical, and possibly nuclear weapons and use them to conduct large-scale attacks. Conventional weapons and explosives will continue to be the most often used instruments of destruction in terrorist attacks; however, terrorists who are determined to develop CBRN capabilities will have increasing opportunities to do so, owing to the spread of relevant technological knowledge and the ability to work with CBRN materials and designs in safehavens.

- Most terrorist groups that have shown some interest, intent, or capability to conduct CBRN attacks have pursued only limited, technically simple approaches that have not yet caused large numbers of casualties.

In particular, we assess the terrorist use of biological agents represents a growing threat as the barriers to obtaining many suitable starter cultures are eroding and open source technical literature and basic laboratory equipment can facilitate production. Terrorist chemical attacks also represent a substantial threat. Small-scale chemical attacks using industrial toxins have been the most frequent type of CBRN attack to date. The chlorine attacks in Iraq from October 2006 through the summer of 2007 highlighted terrorist interest in using commercial and easily available toxic industrial chemicals as weapons.

Al-Qa'ida is the terrorist group that historically has sought the broadest range of CBRN attack capabilities, and we assess that it would use any CBRN capability it acquires in an anti-US attack, preferably against the Homeland. There also is a threat of biological or chemical attacks in the US Homeland by lone individuals.

Rising Asia

As the terrorism and proliferation threats persist across the “arc of instability,” East and South Asia are poised to become the long-term power center of the world. China and India are restoring the positions they held in the eighteenth century when China produced approximately 30 percent and India 15 percent of the world’s wealth. These two countries are likely to surpass the GDP of all other economies except the United States and Japan by 2025, although the current financial crisis may somewhat slow the momentum. Japan remains the second largest global economy and a strong US ally in the region, but the global economic slowdown is exacting a heavy toll on Japan’s economy. To realize its aspirations to play increased regional and global roles will require strong leadership and politically difficult decisions. All together—Japan, the “tiger” economies like South Korea and Taiwan as well as the rising giants of China and India point to the “rise of Asia” as a defining characteristic of the 21st century. China’s reemergence as a major power with global impact is especially affecting the regional balance of power.

As in the Middle East, the United States has strong relationships in East Asia—a network of alliances with Japan, South Korea, the Philippines, Thailand, and Australia, and close partnerships with other countries—and a longstanding forward military presence. Countries in the region look to the United States for leadership and for ways to encourage China to become a constructive and responsible player in the regional and global communities. Although China will have ample opportunity to play a positive role, it also poses a potential challenge if it chooses to use its growing power and influence in ways counter to US or broader international interests.

China’s Transformation

China is thirty years into a fundamental transformation that will take many more decades to complete. Although there have been moments when the government’s effort to maintain control seemed on the verge of failure—notably the crisis on Tiananmen Square in 1989—the government has been remarkably successful in guiding reform. China has avoided the fate of most other socialist countries, suffering neither the economic and political collapse of the Soviet Union nor the stagnation of Cuba and North Korea.

We judge China’s international behavior is driven by a combination of domestic priorities, primarily maintaining economic prosperity and domestic stability, and a longstanding ambition to see China play the role of a great power in East Asia and globally. Chinese leaders view preserving domestic stability as one of their most important internal security challenges. Their greatest concerns are separatist unrest and the possibility that local protests could merge into a coordinated national movement demanding fundamental political reforms or an end to Party rule. Security forces move quickly and sometimes forcefully to end demonstrations. The March 2008 protests in Tibet highlighted the danger of separatist unrest and prompted Beijing to deploy paramilitary and military assets to end the demonstrations.

These same domestic priorities are central to Chinese foreign policy. China’s desire to secure access to the markets, commodities, and energy supplies needed to sustain domestic economic growth significantly influences its foreign engagement. Chinese diplomacy seeks to maintain favorable relations with other major powers, particularly the US, which Beijing

perceives as vital to China's economic success and to achieving its other strategic objectives. But Beijing is also seeking to build its global image and influence in order to advance its broader interests and to resist what it perceives as external challenges to those interests or to China's security and territorial integrity.

Taiwan as an area of tension in US-China relations has substantially relaxed since the 2008 election of Ma Ying-jeou. The new Taiwanese President inaugurated in May has resumed dialogue with Beijing after a nine-year hiatus, and leaders on both sides of the Taiwan Strait are now cautiously optimistic that a new period of less confrontational relations has begun. Many outstanding challenges remain, however, and the two sides eventually will need to confront issues such as Taiwan's participation in international organizations. Beijing has not renounced the use of force against the island, and China's leaders see maintaining the goal of unification as vital to regime legitimacy.

PLA Modernization

Preparations for a possible Taiwan conflict continue to drive the modernization goals of the People's Liberation Army (PLA) and the Chinese defense-industrial complex. It will likely remain the primary factor as long as the Taiwan situation is unresolved.

At the same time, we judge that China over the past several years has begun a substantially new phase in its military development by beginning to articulate roles and missions for the PLA that go well beyond China's immediate territorial interests.

- For example, China's leaders may decide to contribute combat forces to peacekeeping operations, in addition to expanding the current level of command and logistic support.
- China's national security interests are broadening. This will likely lead China to attempt to develop at least a limited naval power projection capability extending beyond the South China Sea. This already has been reflected in Beijing's decision in December to participate in anti-piracy operations off the coast of Somalia.

Missile Capability. China continues to develop and field conventional theater-range ballistic and cruise missile capabilities that can reach US forces and regional bases throughout the Western Pacific and Asia, including Guam. China also is developing conventionally armed short- and medium-range ballistic missiles with terminally guided maneuverable warheads that could be used to attack US naval forces and airbases. In addition, counter-command, control, and sensor systems, to include communications satellite jammers, are among Beijing's highest military priorities.

Counterspace Systems. China continues to pursue a long-term program to develop a capability to disrupt and damage critical foreign space systems. Counterspace systems, including antisatellite (ASAT) weapons, also rank among the country's highest military priorities.

Nuclear Capability. On the nuclear side, we judge Beijing seeks to modernize China's strategic forces in order to address concerns about the survivability of those systems in the face of foreign, particularly US, advances in strategic reconnaissance, precision strike, and missile defenses. We assess China's nuclear capabilities will increase over the next ten years.

Indian Pragmatism

Like China, India's expanding economy will lead New Delhi to pursue new trade partners, gain access to vital energy markets, and generate the other resources required to sustain rapid economic growth. To sustain rapid growth, Indian governments also must maintain the political support for economic reforms needed to drive the expanding economy.

On the global stage, Indian leaders will continue to follow an independent course characterized by economic and political pragmatism. New Delhi will not automatically support or oppose positions favored by the United States or any other major power. Nonetheless, good relations with the United States will be essential for India to realize its global ambitions. Indian leaders will seek benefits from American influence, trade, and technology. Strong ties to Washington also will give India more confidence in dealing with China and in mitigating the dangers posed by its long-time adversary, Pakistan. However, Indian leaders often will adopt positions contrary to those favored by Washington. India will be concerned about China during the coming decade because of Beijing's political and economic power and its ability to project military force regionally, but Indian leaders will strive to avoid confrontation with China.

Indian-Pakistan Relations. Within South Asia, one of the world's least integrated regions, India will strive to manage tensions with Pakistan, transnational terrorism, and spillover from instability in small neighboring states. Determined efforts by Indian and Pakistani leaders to improve relations through the so-called Composite Dialogue over the last four years could unravel unless Islamabad takes sustained, concrete, meaningful steps to allay Indian concerns about Islamabad's support to anti-Indian militant groups. This is the case particularly in light of the November 2008 terrorist attack in Mumbai. The attack has convinced many Indians that Pakistani military leaders, in an effort to undercut India's emerging international stature, now favor a strategy of allowing Pakistan-based groups to attack targets that symbolize New Delhi's growing prominence on the global stage or that could undermine India's prominence by provoking religious violence in the country. In the absence of a military response against Islamabad, the Indian public will look for visible signs that Pakistan is actively working to punish those involved and eliminate its domestic terrorist organizations. Pakistan-based groups could carry out additional attacks against India and run the risk of provoking an India-Pakistan conflict. In addition, India, which has endured a series of major terrorist attacks without major military response since 2003, is under domestic pressure to make rapid and significant improvements in its counterterrorism capabilities.

India also will look for ways to safeguard its interests in light of the concluding civil war in Sri Lanka and political uncertainty in Bangladesh and Nepal, which have experienced dramatic transformations in government during the past year. New Delhi generally will be supportive of democratic forces in its smaller neighbors, while also being sensitive to the opinions of the Tamil and Bengali communities within India.

North Korea's Nuclear Ambitions

In addition to a possible India-Pakistan conflict, Pyongyang's nuclear ambitions and proliferation behavior threaten to destabilize East Asia. The North's October 2006 nuclear test is consistent with our longstanding assessment that it had produced a nuclear device. Prior to the

test, we assessed that North Korea produced enough plutonium for at least a half dozen nuclear weapons. The IC continues to assess North Korea has pursued a uranium enrichment capability in the past. Some in the Intelligence Community have increasing concerns that North Korea has an ongoing covert uranium enrichment program.

Pyongyang probably views its nuclear weapons as being more for deterrence, international prestige, and coercive diplomacy than for warfighting and would consider using nuclear weapons only under certain narrow circumstances. We also assess Pyongyang probably would not attempt to use nuclear weapons against US forces or territory unless it perceived the regime to be on the verge of military defeat and risked an irretrievable loss of control.

Progress was made, albeit painstakingly, last year in Six Party Talks; the DPRK has shut down three core facilities at Yongbyon and has completed eight of the eleven disablement steps. However, much work remains. At the latest round of talks held in December in Beijing, the DPRK refused to agree to a Six Party verification protocol needed to verify the completeness and correctness of its nuclear declaration. Since then, Pyongyang has issued hardline statements suggesting further challenges to denuclearization.

On the proliferation side, North Korea has sold ballistic missiles and associated materials to several Middle Eastern countries, including Iran, and, in our assessment, assisted Syria with the construction of a nuclear reactor. We remain concerned North Korea could again export nuclear technology. In the October 3 Second Phase Actions agreement, the DPRK reaffirmed its commitment not to transfer nuclear materials, technology, or know-how. We assess Pyongyang is less likely to risk selling nuclear weapons or weapons-quantities of fissile material than nuclear technology or less sensitive equipment to other countries or non-state actors, in part because it needs its limited fissile material for its own deterrent. Pyongyang probably also perceives that it would risk a regime-ending military confrontation with the United States if the nuclear material was used by another country or group in a nuclear strike or terrorist attacks and the United States could trace the material back to North Korea. It is possible, however, that the North might find a nuclear weapons or fissile material transfer more appealing if its own stockpile grows larger and/or it faces an extreme economic crisis where the potentially huge revenue from such a sale could help the country survive.

We assess that poor economic conditions are fueling systemic vulnerability within North Korea. Public statements by the regime emphasize the need for adequate food supplies. A relatively good fall harvest in 2008, combined with the delivery of substantial US food aid—500,000 tons of grain have been promised and about one-third of this has been delivered—probably will prevent deterioration in the food security situation during the next few months. However, we assess North Korea is still failing to come to grips with the economic downturn that began in the early 1990s and that prospects for economic recovery remain slight. In addition to food, shortages in fertilizer and energy continue to plague the economy. Investment spending appears is negligible, trade remains weak, and we see little progress toward economic reforms. Pyongyang has long been in default on a relatively large foreign debt and we assess that badly needed foreign investment will not take place unless the North comes to terms with its international creditors and conforms to internationally accepted trade and financial norms, badly needed foreign investment will not take place.

- Pyongyang's strategic posture is not helping its economy. Trade with Japan has fallen precipitously since the nuclear and missile tests of 2006, and, while commercial trade with South Korea rose in 2008, South Korean aid and tourism to the North declined due to increased North-South tensions.

Despite this poor economic performance and the many privations of the North Korean public, we see no organized opposition to Kim Jong Il's rule and only occasional incidents of social disorder. Kim probably suffered a stroke in August that incapacitated him for several weeks, hindering his ability to operate as actively as he did before the stroke. However, his recent public activities suggest his health has improved significantly, and we assess he is making key decisions. The state's control apparatus by all accounts remains strong, sustaining the dismal condition of human rights in North Korea.

Growing Challenges in Russia and Eurasia

Russian challenges to US interests now spring more from Moscow's perceived strengths than from the state weaknesses characteristic of the 1990s. US involvement in Iraq and Afghanistan and general anti-Americanism have created openings for Russia to build alternative arrangements to the US-led international political and economic institutional order. Russia is actively cultivating relations with regional powers, including China, Iran, and Venezuela to increase its ability to influence events. Moscow also is trying to maintain control over energy supply and transportation networks to Europe to East Asia, and protect and further enhance its market share in Europe through new bilateral energy partnerships and organizing a gas cartel with other major exporters. Russia appears to believe the continued heavy dependence of European countries and former Soviet states on Russia's state gas monopoly, Gazprom, provides Moscow with political and economic leverage.

Russia continues to rely on its nuclear deterrent and retaliatory capability to counter the perceived threat from the United States and NATO. Moscow for the past several years has also been strengthening its conventional military force to make it a credible foreign policy instrument, both to signal its political resurgence and to assert its dominance over neighboring states, like Georgia. Moscow has actively engaged in foreign military cooperation with countries such as China and Venezuela, in part to remind the United States and others of Russia's global military relevance. Despite persistent challenges, including a long-term decline in the numbers and quality of recruits and difficulties in keeping pace with the demands of weapons modernization, the Russian military defeated the Georgian military last August.

Russian leaders recently have spoken positively about the possibilities for change in the US-Russia dynamic, but issues such as NATO enlargement, the conflict over Georgia's separatist regions, and Missile Defense will continue to pose difficulties for the relationship and underscore the challenges of finding ways to engage with Russia. Even as it seeks to negotiate a robust post-START agreement, Moscow consistently stresses that the accession to NATO of Georgia and Ukraine would put existing arms control regimes and negotiations at risk and could prompt Russian military countermeasures as well as increased pressure against Tbilisi and Kyiv.

Russia's strong engagement with countries like Iran and Syria, including advanced weapons sales, also has implications for US nonproliferation interests.

Eurasia/Caucasus/Central Asia

Six months after the fighting between Russia and Georgia over Abkhazia and South Ossetia last August, the separatist regions remain potential flashpoints. Moscow's expanded military presence in and political-economic ties to these regions, along with continuing violence increase the risk of provocation, overreaction, or miscalculation leading to a resumption of fighting. Although the political situation in Georgia has stabilized, President Saakashvili faces increasing criticism from the domestic opposition, and his reaction to that will either enhance or set back Georgia's democratic development.

The continued difficulty of bridging fundamental differences between Azerbaijan and Armenia over Nagorno-Karabakh will also keep tensions high in the Caucasus. Azerbaijan fears isolation in the wake of Kosovo's independence, Russia's recognition of South Ossetia and Abkhazia, and signs of improved Armenian-Turkish relations. Armenia is concerned about Baku's military buildup and does not want to become dependent on Russia. Both countries face the dual challenges of overcoming inertia in democratic reforms and battling endemic corruption in the face of an economic downturn.

An increasingly assertive Russia and the fallout from the global financial crisis will combine to amplify the challenges facing Ukraine as it heads for a presidential election in Winter 2009-2010. Ukraine has moved toward democracy and Western integration despite numerous political tests since independence. Progress will be difficult because of weak political institutions, ongoing conflicts with Russia over gas pricing and contracts and the new exigencies of the global financial crisis, which has dramatically revealed the underlying weaknesses of the Ukrainian economy and potentially Ukraine's stability.

In Belarus, the Lukashenko regime appears willing to cooperate with Russian efforts to counter US missile defense plans with Prague and Warsaw. However, Russia's continuing efforts to control key Belarusian economic sectors could prompt Minsk to improve ties with the West to balance Moscow. Lukashenko maintains an authoritarian grip on power and could return to repressive measures if public discontent over the worsening economy turns to protest.

The five Central Asian states—Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan—with their highly-personalized politics, weak institutions, and growing inequalities are ill-equipped to deal with the challenges posed by Islamic violent extremism, poor economic development, and problems associated with energy water and food distribution. Energy helped make Kazakhstan a regional economic force, but any sustained decline in oil prices would affect revenues, could lead to societal discontent, and will derail the momentum for domestic reforms. Tajikistan and Kyrgyzstan have heavily depended on migrant worker remittances from both Russia and Kazakhstan for a significant portion of their gross domestic product—up to 45 percent in the case of Tajikistan—and will be severely affected by the financial crisis. Tajikistan, in particular, faces increased threats to internal stability from the loss of these critical revenue streams. Ultimately, these challenges to regional stability could threaten

the security of critical US and NATO lines of communication to Afghanistan through Central Asia.

The Balkans

Events in the Balkans will again pose the greatest threat of instability in Europe in 2009, despite positive developments in the last year that included Kosovo's peaceful declaration of independence from Serbia, the election of pro-EU leaders in Serbia, and offers of NATO membership to Croatia and Albania. The principal challenges to stability will come from the unresolved political status of the Serb minority in Kosovo, particularly in northern Kosovo, and Bosnia-Herzegovina's (BiH) continuing uneasy inter-ethnic condominium.

More than 50 nations, including 22 of 27 EU members, have recognized the new state of **Kosovo**. In the coming years Pristina will depend on the international community for economic and development assistance and to ensure Kosovo's territorial integrity. Belgrade openly supports parallel Kosovo Serb institutions. It has used political and legal means to challenge and undermine Pristina's sovereignty and to limit the mandate of the EU's Rule of Law mission (EULEX) in Kosovo, which is meant to help Kosovo authorities build multi-ethnic police, judiciary, and customs systems. This has reinforced the de facto separation of Kosovo into an Albanian-majority south and a Serb-majority north and frustrated the Kosovo Albanians. Kosovo Force's (KFOR) presence will help deter widespread violence, however. **Serbia's** leaders espouse a European future, and President Tadic desires quick progress toward EU membership, but they are unwilling to abandon Belgrade's stake in Kosovo to achieve that end. Belgrade still looks for Moscow's diplomatic support on this issue and recently concluded a significant energy deal with Moscow, including sale of a majority stake in its state oil refinery.

Bosnia's future as a multi-ethnic state remains in doubt, although neither widespread violence nor a formal split is imminent. Ethnic agendas still dominate the political process, and wrangling among the three main ethnic groups over the past 18 months has stalled the process of building a central government capable of taking the country into NATO and the EU. Threats of secession by Bosnian Serb leaders and calls by some Bosniak leaders to eliminate the Bosnian Serb entity have increased inter-ethnic tensions to perhaps the highest level in years.

Testing Times for Latin America

Latin American economies, following five consecutive years of solid performance, are feeling the repercussions from the global financial crisis. We expect the region's growth rate will fall substantially this year to about 1 percent from 4 percent for 2008. Exports from the region have averaged 20 percent growth for five years, but falling commodity prices and slowdowns in major industrial markets have sharply reduced export growth in the fourth quarter of 2008 and into 2009. Foreign direct investment flows through mid-year 2008 were on pace to reach the record level of \$110 billion in 2007, but are likely to have diminished in late 2008 and probably will continue to do so in 2009. Finally, after 10 years of worker remittances growing at an average annual rate of better than 15 percent, remittances grew just 7 percent in 2007 and grew only 1 to 2 percent in 2008.

Democracy in much of Latin America has established impressive roots over the past decade or so. In countries that comprise the bulk of the region's GDP and population—like Brazil, Chile, Colombia, Mexico, and Peru—pro-market policies have yielded important economic dividends that help fortify democratic gains. Brazil is becoming a leading regional power and, along with others like Argentina and Chile, is trying to promote greater South American integration.

Developments in the last year, however, underscore the challenge that populist, often-autocratic regimes still pose in the region. Venezuela attracts substantial, if declining, regional popular support, but its influence is likely to diminish as its economic problems mount. Cuba, though an economic basket case, can still influence the Latin American left because of its so-called “anti-imperialist” stance. Others like Bolivia, and to a lesser extent Argentina and Ecuador, have embraced populist policies and are likely to also lag behind. Some, such as Haiti, have become even poorer and still less governable. Basic law-and-order issues, to include rising violent crime and powerful drug trafficking organizations also confront key hemispheric nations, as do uneven governance and institution-building efforts and performance in confronting chronic corruption. To maintain our political and economic influence in the region, the United States will be called upon to help the region's governments address their growing security problems and to deliver greater market access. Our use of bilateral trade agreements, and foreign aid through the Millennium Challenge Account to less developed countries, helps cement sound economic policies and more effective governance.

As in Africa (see below), China has increased its outreach to Latin America in recent years, primarily in pursuit of access to markets and resources to fuel its economic development and growth. This is boosting Chinese economic and diplomatic influence in the region, and generating questions about Beijing's long-term intention in the developing world—potentially as an alternative development model. Beijing's military engagement in the region—while secondary to its economic and political engagement efforts—also facilitates access to strategic natural resources. People's Liberation Army outreach activities in Latin America have included high-level strategic dialogue, personnel exchanges, and sales of weapons and equipment. Nonetheless, Beijing has made few arms sales to the region, outside of Venezuela, nor developed significant military-to-military ties with any countries. For its part, Tehran has made some progress over the last few years in improving commercial ties and establishing embassies and cultural centers in Latin America, with an aim to reducing Iran's international isolation. Hizballah has long maintained a presence in the tri-border region between Argentina, Brazil and Paraguay, a notorious region for narcotics and arms trafficking.

Mexico

Mexico's sound fiscal and monetary policies will probably provide some insulation from the current global economic volatility. With 80 percent of its exports destined for US consumers and low international oil prices, however, Mexico would take a strong hit from a prolonged US recession. Mexico's Finance Secretariat cut growth estimates for 2008 to 1.5 percent, and Finance Minister Carstens has openly acknowledged growth might contract by a percentage point this year. Mexico last experienced a fall in GDP in 2001. Unemployment late last year was almost 4.5 percent, up a point from 2007 and underemployment is even higher.

Employment in the construction sector dropped more than 4 percent in the same time period, according to Mexico's National Statistics Institute.

The sharp economic downturn as yet shows no sign of hurting Mexico's debt posture or spurring northward migration. Mexico's National Statistics Institute late last year indicated that Mexican emigration had dropped 42 percent since 2006, probably due to the decreased demand for labor in the United States. That trend probably will lead to declines in remittances, the second largest source of foreign currency after oil exports, and increase pressure on the government to create jobs.

Mexico remains the most important conduit for illicit drugs reaching the United States. As much as 90 percent of that cocaine known to be directed toward the United States, and some Colombian heroin, eventually transits Mexico before entering the United States. Despite recent successful efforts to counter precursor chemical diversion and drug trafficking, Mexico is the chief foreign supplier of methamphetamine and marijuana to the US market and produces most of the heroin consumed west of the Mississippi River. The corruptive influence and increasing violence of Mexican drug cartels, which are among the most powerful organized crime groups in the world, impede Mexico City's ability to govern parts of its territory and build effective democratic institutions.

Nearly 5,500 people—mostly cartel operatives and to a lesser degree local police—were murdered in 2008 in cartel-related violence, far exceeding the record of about 2,700 drug-related murders in 2007. Also, the cartels have shown their willingness and capacity to strike Mexican Government officials, its leadership, and the military. Nevertheless, sustained government pressure has disrupted established transnational cocaine supply chains, interfered with day-to-day cartel operations, and has started to fragment Mexico's powerful drug cartels. We assess that significantly more cocaine is diverting to Central America before moving into Mexico, a shift that, in our judgment, mitigates some risks drug traffickers faced in Mexico but that also complicates trafficking operations.

As trafficking networks have come under increasing strain from President Calderon's counternarcotics efforts, elements of Mexico's most powerful cartels have become more aggressive. The assassination of the national police commissioner last May, the grenade attack in a crowded plaza in Michoacan State last September and the execution of Brigadier General marco Enrique Tello Quinonez this month indicate cartel elements are increasingly willing to kill high-level Mexican officials, retaliate against soldiers, and tolerate more collateral damage among civilians not directly involved in the drug trade.

Calderon has demonstrated his determination to address the problem of narcotics-related corruption at all levels of the government by launching Operation Cleanup. Most notably, this has led to the arrest of a former Deputy Attorney General and the head of Interpol in Mexico. In addition, Calderon won approval in November of the 2009 federal budget, which increased outlays in real terms to the Public Security Secretariat and the Attorney General's Office by 69 percent and 29 percent, respectively.

Colombia

President Uribe is committed to an all-out effort to defeat the Revolutionary Armed Forces of Colombia by the time his term ends in 2010. His public statements indicate he is determined to use Colombia's security forces to maintain the systematic military pressure that has kept the FARC on the run, caused the FARC to lose territory, and degraded FARC command and control. Among the major successes in 2008 were the deaths of key FARC leaders, including members of the ruling Secretariat, a continued high number of FARC desertions, and the 2 July rescue of 15 hostages, including three US citizens.

Despite these reverses, the FARC leadership has shown no signs it seeks to end hostilities or participate in serious peace talks. The group has a record of resilience, and its chances for surviving as a viable insurgent force over the next several years will be aided by a still-cohesive leadership structure, substantial drug revenues, and cross-border sanctuaries in Venezuela and Ecuador.

Although the FARC is unlikely to make a sustained comeback, it will still be able to conduct small-scale guerrilla and terrorist attacks nationwide. Official and nonofficial US citizens remain at risk.

The government's successes have contributed to a dramatic drop in crime, terrorist acts, massacres, and kidnappings. Bogota has made progress on providing better protection for labor unionists and instituting policies to educate the security services on human rights standards. Bogota needs to follow through, however, with its proposals to strengthen the judiciary and prosecute the murders of union members and human rights workers.

Bogota's counterdrug successes—including capture and extradition of the leaders of the North Valley Cartel, the last remaining large-scale drug cartel (besides the FARC), the targeting of mid-level leaders, a strong security force presence in key drug transit and coca growing zones, and its US-backed coca eradication program—have hampered FARC drug trafficking operations. Bogota's strides in tackling corruption also have led to high-profile trafficker takedowns. Bogota arrested or killed important traffickers such as the Mejia Munera brothers, known as "los Mellizos," in 2008 after the officials protecting them were removed from office. Colombian interdiction efforts resulted in an increase in seizures in 2008. Still, Colombia remains the world's leading producer of cocaine and a key supplier of heroin to the US market. The US Government's 2007 imagery-based survey indicates 167,000 hectares in Colombia were planted with coca, as compared to 157,200 in 2006, a statistically insignificant increase. Although the total area under cultivation remained nearly constant, aerial eradication reduced yield per hectare by killing some plants inside of areas counted as fully under cultivation and causing some farmers to lose harvests before they could rehabilitate the field. This resulted in a reduction in potential cocaine production from 550 metric tons in 2006 to 535 in 2007. Area under cultivation in 2007 was slightly less than in 2001, the year when Plan Colombia support began to take hold, but potential production is about one quarter less, due to the effects of aerial eradication on yield. We are still compiling and assessing the data from 2008.

Venezuela

President Hugo Chavez is focusing on shoring up public support at home after his opponents won five key states and the capital in November gubernatorial and mayoral elections. Chavez also must deal with growing public concern about violent crime and worsening economic conditions. Nevertheless, Chavez remains Venezuela's most popular politician, according to a reputable local polling company, and controls the country's key institutions. To consolidate his socialist "revolution," Chavez has ordered a referendum for February aimed at allowing indefinite reelection for all elected officials. His push probably reflects concern over dwindling oil profits undercutting his ability to maintain popular domestic programs.

Chavez probably will struggle to maintain economic growth in the coming years as oil prices fall from their record highs. He has been unable to control high inflation and his statist economic policies have reduced drastically private-sector growth. Chavez also has failed to make sufficient investments in infrastructure, especially in the vital oil sector, necessary for sustained growth.

- Venezuela's crude oil output of about 2.3 million b/d and its exports to the United States are slowly declining; prospects for a significant turnaround are limited unless Caracas changes its current oil policies.
- If the price of West Texas Intermediate oil stays below \$50 per barrel for most of 2009, Chavez probably will be forced to make major cuts in domestic and foreign spending or to devalue the Venezuelan currency and draw down government hard currency reserves to avoid a major economic crisis.

Chavez is likely to face new constraints in 2009 as he attempts to expand his influence in Latin America. His willingness to spend oil revenue on foreign aid and his unstinting populist message have paid some dividends, but repeated spats with foreign leaders have tarnished his image and falling oil prices could further undermine his ability to buy friends. Chavez's approval rating has been decreasing regionally, according to the 2008 Latinbarometer, a highly regarded regional survey. Chavez has provided significant financial and political support to Evo Morales in Bolivia and Daniel Ortega in Nicaragua.

Public disclosure of Chavez's close ties with the Revolutionary Armed Forces of Colombia (FARC), which were reflected in documents from the hard drives captured after the death of a FARC Secretariat member in March, have forced Chavez, at least rhetorically, to improve relations with Bogota. We assess Chavez is likely to maintain his decade-long ties to the FARC by providing them safehaven because of his ideological affinity to the group and his interest in influencing Colombian politics.

- The United States in September designated two senior Venezuelan Government officials and one former official under the Foreign Narcotics Kingpin Designation Act for materially assisting the narcotics trafficking activities of the FARC.

Chavez's efforts to expand his reach beyond Latin America continue to give priority to Iran, Russia, and China. The personal relationship between Iran's President Ahmadi-Nejad and Chavez drives strengthening bilateral economic and military ties, although the two countries are

still struggling to overcome bureaucratic and linguistic obstacles to implementing accords. Venezuela also is serving as a bridge to help Iran build relations with other Latin American countries. Chavez has given special attention in recent months to deepening political, economic, and military ties to Russia. In late 2008, he announced his plans to build a nuclear power plant in Venezuela with Russian assistance.

Despite Caracas's stated interest in purchasing more Russian, Chinese, and Spanish armaments, worsening economic conditions probably will force Chavez to slow such acquisitions. His \$5.3 billion in military purchases since 2005 have attracted notice within the region, although Venezuela's overall military capabilities remain plagued by logistic, maintenance and transportation shortfalls. Notable purchases from Russia include 24 Su-30MK2 fighters, helicopters, and assault rifles.

Chavez's growing ties to Iran, coupled with Venezuela's lax financial laws and border controls, and widespread corruption have created a permissive environment for Hizballah to exploit. In June 2008, two Venezuelan-based individuals, one a Venezuelan diplomat, were designated by the US Treasury Department as supporters of terrorism for reportedly providing logistical and financial support to Hizballah members.

Venezuela is second only to Colombia as the most important cocaine departure country in South America, and it is the leading departure country of air smuggling to world markets. Venezuela's share of the cocaine departing South America has tripled from 5 percent in 2004 to 15 percent through the third quarter of 2008. counternarcotics cooperation has sunk to an all-time low in the wake of the expulsion of the US Ambassador by Chavez and his refusal to grant visas to new DEA officials to work in Venezuela.

Cuba

President Raul Castro's record since formally taking power in February 2008 indicates his primary objective in the coming year will be to make Cuba's dysfunctional socialist economy more efficient. His task has been made more difficult, however, by the extensive damage to the country's already weak agricultural sector and infrastructure by three major and successive hurricanes last year. The global economic downturn will further slow growth, diminishing the regime's options for addressing public dissatisfaction with living conditions.

Havana's competent and immediate response to the hurricanes underscores the effectiveness of regime controls and indicates that it remains capable of preventing a spontaneous mass migration. Nevertheless, we judge that at a minimum the annual flow of Cuban migrants to the United States will stay at the same high levels of about 35,000 legal and illegal migrants annually that have prevailed over the past several years.

Raul almost certainly will continue to proceed cautiously on any reforms to the economy in order to maintain elite consensus and avoid raising public expectations beyond what he is able or willing to deliver. We have seen no indication in the modest changes he has implemented that he intends to abandon core Communist economic principles, such as state ownership of production. On the political front, all indications are that Raul will continue to deny elements of civil society and pro-democracy dissidents the exercise of free expression.

Venezuela's preferential terms for oil sales and payments for Cuban medical personnel and other technical specialists will remain Cuba's economic lifeline, despite Cuba's efforts to attract other sources of foreign investment from countries such as China and Russia. President Chavez probably will prioritize aid to Havana over other foreign policy commitments.

We assess Raul will continue his efforts to bolster Havana's international legitimacy by projecting a more moderate political image. Nevertheless, Cuba almost certainly will remain heavily involved behind-the-scenes in counseling and supporting authoritarian populist governments in Latin America and otherwise seeking to undermine US influence across the region.

Bolivia

After nearly a year of sporadic unrest and rising tensions, President Evo Morales and opposition legislators last October reached a compromise to allow a referendum in late January on a draft constitution that encapsulates much of Morales' social and economic reform agenda. The compromise eased tensions following a string of violent protests last fall, but some leaders in eastern departments rejected the compromise. Nevertheless, the referendum passed by a comfortable margin. The draft constitution leaves many contentious issues vague, which several government and opposition leaders have acknowledged probably will lead to further disputes over implementation in the run-up to new presidential elections in December 2009.

Although the risk of violence against US citizens has been reduced for the time being, Morales consistently has accused official US organizations—the US Embassy, DEA, and USAID—of conspiring against him. Morales in September expelled the US Ambassador and in November expelled DEA personnel. Morales in January publicly threatened to close Congress and pass bills implementing the new Constitution by decree if legislators refused to cooperate.

Chavez promised to protect Morales's government and provided La Paz important financial assistance. Since 2006, Venezuela has provided Bolivia more than \$95 million in direct financial aid.

Africa: Falling Further Behind

Africa has made substantial economic and political progress over the past decade. However, the durability of the region's recent positive growth trend, particularly among countries dependent on commodity exports and foreign capital inflows, will be tested by the drop in commodity prices and recessions in the United States and Europe. Even before the financial crisis hit, the 6 percent GDP growth rate—although impressive—was insufficient to bring about necessary structural changes in the continent's economy. Africa's economic growth is led by a small number of oil-producing countries, but even those countries without oil resources have experienced GDP growth rates far above their historical rates. Agriculture, the foundation of most African economies, is far from achieving self-sufficiency, but technical solutions and infrastructure enhancement have demonstrated their ability to boost production in Mali, Malawi

and Zambia. Further transformations remain uncertain in light of the EU's continuing ban on genetically modified foodstuffs.

In addition to fallout from the global financial crisis, Africa faces other economic, societal and security challenges. Sub-Saharan Africa is confronting a shortage of skilled medical personnel, deteriorating health systems, and inadequate budgets to deal with diseases like HIV/AIDS, malaria, and tuberculosis. Transnational crime, especially the transshipment of illegal drugs to Europe, and corruption are growing in various parts of Africa, weighing down the continent's economic growth, reducing government efficiency, and undermining the security services of African states.

China's presence has grown substantially over the past decade. Total bilateral trade between China and the continent has increased from less than \$4 billion in 1995 to \$100 billion in 2008, but the EU and US still remain far larger economic partners for the region. China's objectives are to secure access to African markets and natural resources, isolate Taiwan, and enhance its international stature, all of which it has made progress on. Nevertheless, China's role has generated local resentment as Chinese firms are seen as undercutting African competitors in securing commercial contracts and falling short of standard local labor practices. Moreover, there is little discernible evidence of Chinese investments being used to incorporate Africa into the industrial "global value production chains" that are becoming the hallmark of integrative trade and FDI flows, especially in manufacturing in other regions of the world.

The most serious problem confronting Africa is the continuation of a number of serious and seemingly intractable conflicts in three of Africa's largest and most important states: the Democratic Republic of the Congo, Nigeria, and Sudan. The conflicts in the Congo and Sudan have spilled across their borders and have at times taken on a regional dimension. In the Horn of Africa, the ongoing conflict in Somalia and the collapse of the country's economy have given rise to a piracy epidemic in the Gulf of Aden and have created a terrorist safehaven in southern Somalia.

Although African governments' political commitment to peacekeeping has increased significantly over the last ten years, the capacities of the African Union, regional organization, and individual African states to conduct peacekeeping operations have been stretched to the limit. Major troop contributing countries are becoming more wary and less capable of deploying peacekeepers to potentially dangerous operations whose mandates and missions are unclear.

The Democratic Republic of the Congo

In the Democratic Republic of the Congo, President Joseph Kabila has been unable to consolidate his control over the turbulent Eastern border region. In that area, rebel groups, undisciplined soldiers, and ethnic militia have operated inside and outside of the DRC largely with impunity for many years and have been responsible for numerous acts of violence and human rights abuses. The trouble has persisted, even with the help of the largest UN peacekeeping operation in the world. Recently, however, Kabila has agreed to conduct joint military operations with nearby countries in an effort to root out some of these groups. As a result, Rwanda and Uganda have each sent forces into different parts of the border region, Rwanda into the North and South Kivu Provinces and Uganda into the extreme northeastern

region. In the Kivus, Kinshasa and Kigali are both concerned about the remnant of the 1994 Hutu-led Force for the Democratic Liberation of Rwanda (FDLR). While not a military threat to the Tutsi-led government in Kigali at this time, the force is a threat to local Congolese communities. With Kinshasa's approval, Rwanda sent several thousand soldiers into the area to defeat, demobilize, or repatriate the FDLR. In return for Kinshasa's cooperation, Kigali appears to have dropped its support for a Congolese Tutsi rebel leader, General Laurent Nkunda. The Rwandans have arrested Nkunda and have him in custody. Moreover, his forces have divided, some joining up with Congolese government troops. In the northeast, the Ugandan-led military operation (with both Congolese and Sudanese support) has so far been unsuccessful. Its objective is to eliminate the threat posed by the Ugandan rebel group known as the Lord's Resistance Army (LRA), led by Joseph Kony. Congolese forces, in the near term, probably will not be able to reassert sufficient control over territory occupied by the LRA and other rebels groups or to stop sporadic outbreaks of violence.

Nigeria

Nigeria's oil-rich Delta region, which supplies 10 percent of US oil imports and accounts for America's largest investment in Sub-Saharan Africa, has been engulfed in civil strife for nearly two decades. Widespread violence, criminality, and corruption have continued to disrupt Nigeria's oil and gas production, costing the country millions of dollars in lost revenue. Inadequate governance and a total lack of accountability has put billions of dollars in the pockets of corrupt leaders rather than in much needed development and infrastructure projects. Opportunistic militants, many of whom are beholden to local political leaders who have armed them in the run-up to Nigeria's last three national elections, have attacked oil facilities, kidnapped Nigerian and foreign oil workers, and left much of the Delta lawless and economically ravaged. As result of the violence and criminal activity, Nigerian oil production declined about 10 percent in 2008. Unstable political conditions and the fall in the price of crude oil probably will slow or deter additional foreign investment in the Delta, contributing to further production drop-offs in the future. A turnaround in the current security environment is unlikely soon.

Sudan

As Sudan approaches two major landmarks in the implementation of the 2005 Comprehensive Peace Agreement (CPA), the country remains plagued by violence in Darfur, and the ruling National Congress Party's (NCP) confidence in President Omar Hassan al-Bashir may be waning. The NCP and Sudanese People's Liberation Movement (SPLM) are likely to postpone national elections required to be held under the CPA by July 2009. Election delays are unlikely to trigger a violent collapse of the CPA because both parties have strong incentives to maintain the status quo until at least 2011 when the South will vote on a referendum for independence. However, the parties will have to address critical benchmarks for wealth-sharing and border demarcation contained in the CPA.

- The Darfur conflict has become increasingly complicated over the course of the past five years and is unlikely to be resolved in the near future. While bureaucratic and logistic constraints in New York and Sudan continue to delay full deployment of a 26,000-person UN peacekeeping force, the UN mediator's attempt to hold inclusive peace talks remains stymied by rebel disunity and ongoing fighting, which, to date, has displaced more than 3 million

people. Chadian-backed rebels based in Darfur have advanced on the Sudanese capital in the past year, risking an escalated proxy war between Khartoum and N'Djamena.

- A pending request by the International Criminal Court's (ICC) chief prosecutor for a warrant to arrest Sudanese President Omar Hassan al-Bashir on charges of war crimes, crimes against humanity, and genocide has heightened Khartoum's distrust of Western intentions, while inducing Sudanese officials to appear cooperative with international peacemaking attempts in the short term. The ICC charges against Bashir may undermine his support in the NCP and among Sudan's military leadership.

Somalia

Somalia has not had a stable, central government for 17 years and continues to be mired in conflict. An UN-brokered agreement between the Somali Transitional Federal Government (TFG) and key opposition leaders in mid-2008 is unlikely to bring peace to Somalia in the near term. In January 2009 Ethiopia withdrew the troops it deployed in late 2006 to protect the TFG and oust the Council of Islamic Courts (CIC). Resurgent Islamic extremists are now fighting to fill the void and expand their hold on territory throughout the country. A newly elected pragmatic Islamist president may enhance the credibility of the TFG, but he will face multiple challenges maintaining the new ruling coalition, including the continued dominance of clan politics. The removal of Ethiopian troops, whose presence has alienated most Somalis, is likely to reduce popular support for the extremist group, al-Shabaab al Islamiyah. However, the TFG lacks a viable security service to defend its leaders and a modest African Union peacekeeping force has limited reach in Mogadishu. Violent power struggles between Islamist militias and emerging local resistance groups could displace thousands of additional Somalis, exacerbating already dire humanitarian conditions.

Lawlessness in Somalia already has prompted a surge in piracy in the Gulf of Aden. The number of successful pirate attacks has increased almost fourfold since 2007 after the pirates received several multi-million dollar ransom payments in early 2008. Local authorities' unwillingness or inability to stem piracy also has fueled the proliferation of hijackings. The growing number and sophistication of Somali pirate attacks threaten to restrict the options for countering them, and they could take root in Somali society if left unchecked.

Zimbabwe

Zimbabwe continues to deteriorate under the brutal and corrupt rule of President Robert Mugabe. Over half the population is food insecure and public health facilities and schools have been almost completely shut down. With over 60,000 infected, the recent cholera epidemic is dramatic evidence of how far living conditions have plummeted in this once-prosperous and relatively well-developed country. Zimbabwe's sharp decline has generated problems throughout southern Africa as millions of refugees have fled to South Africa, Botswana, and Mozambique and as the region's well-publicized economic and security concerns have frightened foreign investors away. To date, Mugabe retains the support of his senior military officers and has shown little commitment to the power-sharing deal signed with the opposition Movement for Democratic Change (MDC). Mugabe also has managed to hold on to the backing of South Africa, a key regional player. Pretoria, which recently brokered a coalition agreement between Mugabe and the opposition Movement for Democratic Change, remains unwilling,

despite growing criticism at home and abroad, to apply stronger pressure on Mugabe to step aside or to undertake fundamental political and economic reforms. Mugabe and his ruling elite are likely to remain in power until he loses the support of the security forces, South Africa steps up its pressure, or social and economic conditions in Zimbabwe become substantially worse. With both political parties signing on to the recent power-sharing agreement, it will be up to South Africa, the Southern African Development Community, and the African Union to carefully watch Mugabe's actions and ensure that power is in fact shared and the MDC is allowed to lead.

Drug Trafficking in West Africa

Drug trafficking has become a major problem in West Africa, and the emergence of Guinea-Bissau as Africa's first narco-state highlights the scope of the problem and what may be in store for other states in the region. Away from the scrutiny of local and international law enforcement, drug traffickers, often departing from Venezuela by air and sea, have transported large quantities of drugs, predominantly cocaine, from Latin America to European markets through the porous borders of more than a half dozen West African countries. Traffickers have successfully co-opted government and law enforcement officials in these countries, further undermining weak and economically impoverished governments who lack adequate law enforcement and judicial capacity. ECOWAS sponsored a conference in Cape Verde in late 2008 to address this issue and the governments of Great Britain and France have conducted limited law enforcement and counternarcotics training in the region, but drug trafficking in West Africa probably will continue to expand in volume and scope in the absence of a concerted international effort to stop it.

The Growing Cyber and Organized Crime Threat

Threats to the US Information Technology Infrastructure

The US information infrastructure, including telecommunications and computer networks and systems, and the data that reside on them, is critical to virtually every aspect of modern life. Threats to our information technology infrastructure are an important focus of the Intelligence Community. As government, private sector, and personal activities continue to move to networked operations, as our digital systems add ever more capabilities, as wireless systems become even more ubiquitous, and as the design, manufacture, and service of information technology have moved overseas, the threat will continue to grow.

This information and communications revolution also is enabling an unprecedented ability to spread ideas and influence large numbers of people. Nation-states and non-state groups are taking an increasing interest in the role of mass media in shaping international opinions. Terrorists will continue to be motivated to conduct spectacular attacks in part by the desire to achieve maximum media exposure for their cause. Increasing global connectivity is enabling radical groups to recruit and train new members, proliferate extremist ideologies, manage their finances, manipulate public opinion, and coordinate attacks. In the recent conflict in Gaza, for example, the media played an important role for both sides in shaping public perceptions of the conflict. We can expect future adversaries to similarly employ mass media in an attempt to constrain US courses of actions in a future crisis or conflict.

Further, the growing connectivity between information systems, the Internet, and other infrastructures creates opportunities for attackers to disrupt telecommunications, electrical power, energy pipelines, refineries, financial networks, and other critical infrastructures. Over the past several years we have seen cyber attacks against critical infrastructures abroad, and many of our own infrastructures are as vulnerable as their foreign counterparts.

- A successful cyber attack against a major financial service provider could severely impact the national economy, while cyber attacks against physical infrastructure computer systems such as those that control power grids or oil refineries have the potential to disrupt services for hours to weeks.

Network defense technologies are widely available to mitigate threats but have not been uniformly adopted due to associated costs, perceived need, operational requirements, and regulatory constraints. This slow rate of adoption has allowed cyber attackers to keep up with many defensive advances. Meanwhile, advances in digital communications technology, such as the growth in wireless connectivity and the acceleration of network convergence with a variety of data increasingly digitized and transmitted over the Internet, are creating new vulnerabilities in our networks and new avenues for cyber attacks.

Malicious activity on the Internet also is rapidly increasing: spam—unsolicited email that can contain malicious software—now accounts for 81 percent of all email according to Message Labs (Symantec); the Georgia Tech Information Security Center projects a ten-fold increase in malicious software targeting data in the coming year; and botnets—networks of hijacked computers used to deliver spam or launch distributed denial of service attacks—are expected to compose 15 percent of all online computers in 2009. Ferris Research estimates that the total cost of spam and all of the types of fraud that take advantage of spam’s impact is \$42 billion in the United States and \$140 billion worldwide in last year, while McAfee estimates that global companies may have lost over \$1 trillion worth of intellectual property to data theft in 2008.

State and Non-State Threats. A growing array of state and non-state adversaries are increasingly targeting—for exploitation and potentially disruption or destruction—our information infrastructure, including the Internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries. Over the past year, cyber exploitation activity has grown more sophisticated, more targeted, and more serious. The Intelligence Community expects these trends to continue in the coming year.

We assess that a number of nations, including Russia and China, have the technical capabilities to target and disrupt elements of the US information infrastructure and for intelligence collection. Nation states and criminals target our government and private sector information networks to gain competitive advantage in the commercial sector. Terrorist groups, including al-Qa’ida, HAMAS, and Hizballah, have expressed the desire to use cyber means to target the United States. Criminal elements continue to show growing sophistication in technical capability and targeting and today operate a pervasive, mature on-line service economy in illicit cyber capabilities and services available to anyone willing to pay. Each of these actors has different levels of skill and different intentions; therefore, we must develop flexible capabilities

to counter each. We must take proactive measures to detect and prevent intrusions from whatever source, as they happen, and before they can do significant damage.

We expect disruptive cyber activities to be the norm in future political or military conflicts. The Distributed Denial of Service (DDoS) attacks and Web defacements that targeted Georgia in 2008 and Estonia in 2007 disrupted government, media, and banking Web sites. DDoS attacks and Web defacements targeted Georgian government Web sites, including that of Georgian President Saakishvili, intermittently disrupting online access to the official Georgian perspective of the conflict and some Georgian Government functions but did not affect military action. Such attacks have been a common outlet for hackers during political disputes over the past decade, including Israel's military conflicts with Hizballah and HAMAS in 2006 and 2008, the aftermath of the terrorist attacks in Mumbai last year, the publication of cartoons caricaturing the Prophet Mohammed in 2005, and the Chinese downing of a US Navy aircraft in 2001.

The Comprehensive National Cybersecurity Initiative. In January 2008, the Comprehensive National Cybersecurity Initiative (CNCI) was adopted as national policy as part of National Security Presidential Directive 54/Homeland Security Presidential Directive 23 (NSPD-54/HSPD-23). With bipartisan support, Congress appropriated the vast majority of the CNCI funding request in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.

The CNCI addresses current cybersecurity threats, anticipates future threats and technologies, and develops a framework for creating in partnership with the private sector an environment that no longer favors cyber intruders over defenders. The CNCI includes defensive, offensive, education, research and development, and counterintelligence elements, while remaining sensitive throughout to the requirements of protecting the privacy rights and civil liberties of US citizens. The CNCI is now making considerable progress in building a better understanding of the cyber threat, developing concrete solutions, and approving detailed courses of action. The Administration is now reviewing CNCI, to ensure it is consistent with its own cybersecurity policy.

To be sure, significant work remains in order to protect, defend, and respond to the cyber threat in a manner that markedly improves our nation's overall security. Yet there is reason to be hopeful. We are witnessing an unprecedented unity of effort across a broad coalition of government agencies, members of Congress, and leaders of industry. To succeed, however, the CNCI must remain a long-term national priority. With sustained momentum and continued national resolve we can and will build an enduring security framework capable of protecting our vital national security, economic, and public health interests.

We cannot afford to discover successful cyber intrusions after-the-fact, accept disastrous losses, and then seek merely to contain them. It requires a broad alliance of departments, agencies, and industry leaders to focus on countering the threat, mitigating vulnerabilities, and enhancing resiliency in order to preserve our national security, national economy, and public welfare.

Growing Transnational Organized Crime Threat

Most organized criminal activities increasingly involve either networks of interconnected criminal groups sharing expertise, skills, and resources in joint criminal ventures that transcend national boundaries or powerful, well-organized crime groups seeking to legitimize their image by investing in the global marketplace. Organized criminals and groups will increasingly pose a threat to US national security interests by enhancing the capabilities of terrorists and hostile governments.

Some organized crime networks, groups, and individuals also have invested in energy and mineral markets in an effort to diversify and legitimize their business activities. Criminals' coercive tactics, underhanded business practices, opaque motives, and self-serving loyalties can undermine the normal workings and integrity of these global markets. The most powerful, high-profile Eurasian criminal groups often form strategic alliances with senior political leaders and business tycoons and can operate from a relative safehaven status with little to fear of international arrest and prosecution. The leaders of many of these groups go to great lengths to portray themselves as legitimate businessmen and use front companies that give them more market access and leverage. They also employ some of the world's best accountants, lawyers, bankers, and lobbyists to deflect and frustrate the efforts of authorities.

The change in the structure and types of activities conducted by transnational criminal groups is making it increasingly difficult to identify and attack them. In particular, the increasing prevalence of loosely knit networks, the use of cyberspace and global financial systems, and political corruption have made it easier for them to hide their involvement, to thwart law enforcement efforts, and to create images of legitimacy.

Environmental Security

Climate change, energy, global health, and environmental security are often intertwined, and while not traditionally viewed as "threats" to US national security, they will affect Americans in major ways. The Intelligence Community has increased its focus on these three critical issues as a result of unprecedented developments in the last year.

Access to relatively secure and clean energy sources and management of chronic food and water shortages will assume increasing importance for a growing number of countries. Adding well over a billion people to the world's population by 2025 will itself put pressure on these vital resources. An increasing percentage of the world's population will be moving from rural areas to urban and developed ones to seek greater personal security and economic opportunity. Many, particularly in Asia, will be joining the middle class and will be seeking to emulate Western lifestyles, which involves greater per capita consumption of all these resources.

The already stressed resource sector will be further complicated and, in most cases, exacerbated by climate change, whose physical effects will worsen throughout this period. Continued escalation of energy demand will hasten the impacts of climate change. On the other hand, forcibly cutting back on fossil fuel use before substitutes are widely available could threaten continued economic development, particularly for countries like China, whose industries have not yet achieved high levels of energy efficiency.

Food and water also are intertwined with climate change, energy, and demography. Rising energy prices increase the cost for consumers and the environment of industrial-scale agriculture and application of petrochemical fertilizers. A switch from use of arable land for food to fuel crops provides a limited solution and could exacerbate both the energy and food situations. Climatically, rainfall anomalies and constricted seasonal flows of snow and glacial melts are aggravating water scarcities, harming agriculture in many parts of the globe. Energy and climate dynamics also combine to amplify a number of other ills such as health problems, agricultural losses to pests, and storm damage. The greatest danger may arise from the convergence and interaction of many stresses simultaneously. Such a complex and unprecedented syndrome of problems could cause outright state failure, or weaken important pivotal states counted on to act as anchors of regional stability.

Six to nine months ago we were worried about the implications of increasing high oil prices: the situation has reversed sharply with oil prices falling to close to a third of their July 2008 peak of \$147 per barrel in response to the sudden drop in world oil demand growth and slower economic growth resulting from the global financial crisis. Although we believe the longer-term trend is toward high oil prices, the current lower oil prices reduce pressures on the global economy. Emerging economies previously concerned about busting their budgets on fuel and food subsidies are breathing a sigh of relief now that prices have fallen substantially over the last six months. Most forecasters expect global oil demand and oil prices to remain depressed through 2009 as the financial turmoil continues to unwind. The decline in price may, however, lead to delayed or cancelled investments in the upstream oil and gas sectors, creating the conditions for another spike in oil prices once global oil demand recovers. We also are concerned that lower oil prices may weaken momentum toward energy efficiency and the development of alternative sources of energy that are important for both energy and environmental security. The fall in energy prices also has had the side benefit of undercutting the economic positions of some of the more troublesome producers.

Assessing the Impact of Climate Change

According to the United Nations Intergovernmental Panel on Climate Change (IPCC), a failure to act to reduce green house gas emissions risks severe damage to the planet by the end of this century and even greater risk in coming centuries. In a fossil-intensive scenario that IPCC examined (A1F1), global average temperatures increase by almost four degrees centigrade. In such a scenario, water stored in glaciers and snow cover would decline significantly, reducing water availability in regions supplied by melt water from major mountain ranges, where more than one-sixth of the world population currently lives. Sea-level rise could be up to 59 centimeters by the end of the century and would cause substantial flooding. Individuals in densely populated and low-lying areas, especially the mega deltas of Asian and Africa, where adaptive capacity is relatively low, and which already face other challenges such as tropical storms or local coastal subsidence, are especially at risk. At a four-degree rise, according to the IPCC, up to 30 percent of plant and animal species would be at risk of extinction, global productivity in cereals would decline, intensity of tropical cyclones would increase, and extreme drought areas would rise from 1 percent land area to 30 percent.

The Intelligence Community recently completed a National Intelligence Assessment on the national security impacts of global climate change to 2030. The IC judges global climate change will have important and extensive implications for US national security interests over the next 20 years. Although the United States itself could be less affected and is better equipped than most nations to deal with climate change and may even see a benefit in the near term owing to increases in agriculture productivity, infrastructure repair and replacement will be costly. We judge the most significant impact for the United States will be indirect and result from climate-driven effects on many other countries and their potential to seriously affect US national security interests. We assess climate change alone is unlikely to trigger state failure in any state out to 2030, but the impacts will worsen existing problems such as poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions. Climate change could threaten domestic stability in some states, potentially contributing to intra- or, less likely, interstate conflict, particularly over access to increasingly scarce water resources. We judge economic migrants will perceive additional reasons to migrate because of harsh climates, both within nations and from disadvantaged to richer countries.

From a national security perspective, climate change affects lives (for example, through food and water shortages, increased health problems including the spread of disease, and increased potential for conflict), property (for example through ground subsidence, flooding, coastal erosion, and extreme weather events), and other security interests. The United States depends on a smooth-functioning international system ensuring the flow of trade and market access to critical raw materials such as oil and gas, and security for its allies and partners. Climate change could affect all of these—domestic stability in a number of key states, the opening of new sea lanes and access to raw materials, and the global economy more broadly—with significant geopolitical consequences.

In addition, anticipated impacts to the Homeland—including warming temperatures, changes in precipitation patterns, and possible increases in the severity of storms in the Gulf, increased demand for energy resources, disruptions in US and Arctic infrastructure, and increases in immigration from resource-scarce regions of the world—are expected to be costly. Government, business, and public efforts to develop mitigation and adaptation strategies to deal with climate change—from policies to reduce greenhouse gasses to plans to reduce exposure to climate change or capitalize on potential impacts—may affect US national security interests even more than the physical impacts of climate change itself.

Multilateral policymaking on climate change is likely to be highly visible and a growing priority among traditional security affairs in the coming decades. We observe the United States is seen by the world as occupying a potentially pivotal leadership role between Europe, which is committed to long-term and dramatic reduction in carbon emissions, and a heterogeneous group of developing states wary of committing to greenhouse gas emissions reductions, which they believe would slow their economic growth. As effects of climate change begin to mount, the United States will come under increasing pressure to join the international community in setting meaningful long-term goals for emissions reductions, to reduce its own emissions, and to help others mitigate and adapt to climate change through technological progress and financial assistance.

Global Health

Considerable empirical and theoretical studies have demonstrated the links between the health of a population and economic growth and development. Highly publicized virulent infectious diseases—including HIV/AIDS, a potential influenza pandemic, and “mystery” illnesses such as the 2003 outbreak of severe acute respiratory syndrome (SARS)—remain the most *direct* health-related threats to the United States. The most pressing *transnational* health challenge for the United States is still the potential for emergence of a severe pandemic, with the primary candidate being a highly lethal influenza virus. The World Bank estimates that if the next pandemic virus is similar to the one that caused the 1918 pandemic, it could kill 71 million people worldwide and cause a major global recession with global costs exceeding \$3 trillion. Other estimates, applying the 2.5 percent fatality rate from the 1918 pandemic to today’s population, reach 180 million deaths worldwide. Current threats include H5N1 influenza, a virus that, while primarily a poultry disease, continues to evolve and expand its geographic range.

Infectious diseases are not the only health indicators with strategic significance. Chronic, non-communicable diseases; neglected tropical diseases; maternal and child mortality; malnutrition; sanitation and access to clean water; and availability of basic health-care also affect the US national interest through their impacts on the economies, governments, and militaries of key countries and regions.

- Terrorists and warlords have gained local and international stature and even power by providing health services governments could not. Widespread ill health in the youth cohort may reduce a country’s pool of healthy and capable military recruits, a phenomenon that is currently playing out in Russia and North Korea.

Looking at specific states, the inability of the central government of **Afghanistan** to provide health-care and other services has helped to undermine its credibility while boosting support for a resurgent and increasingly sophisticated Taliban. Wide incidence of traumatic births, malnutrition, and disease put children there at high risk of impaired development, undermining their prospects of attending school, engaging more productively in critical labor such as agricultural production, and participating in other economic activity. In **Iraq**, a degraded health sector, shortages of medical personnel, and infections stemming from deficient sanitary conditions and lack of clean drinking water have undermined the credibility of the central government.

Russia has the overall worst health indicators of any industrialized country. Poor health of Russian children and young people combined with falling birthrates threatens Russian military readiness with a projected halving of eligible military recruits between 2005 and 2018. **China’s** high incidence of chronic disease stemming in great part from heavy tobacco use threatens to slow economic growth by incapacitating workers and incurring heavy health-care costs. The health effects of environmental degradation are an increasing source of discontent in China.

Venezuela and Cuba have been particularly adept at parlaying provision of charitable medical services to nationals of other countries into support in international forums such as the United Nations. Hizballah’s provision of health and social services in Lebanon over the past 20 years has helped to legitimize the organization as a political force in that country, while HAMAS’s delivery of similar services was a factor in its legislative electoral success in the Palestinian territories.

Turning to US Homeland health security issues, existing international resources and regulations will be inadequate to control transnational disease spread at least through the next decade. Movement of people, animals, and products through mass transportation, smuggling, and commerce will continue to homogenize the already global environment. Incidents involving chemical or bacterial contamination of imported food or trade goods, whether accidental or intentional, are likely to increase as China and other developing countries struggle to implement effective monitoring systems. A similar challenge involves ensuring the safety of imported therapeutic drugs and precursor products, as contaminated and counterfeit pharmaceuticals continue to be a worldwide public health threat.

Conclusion

The international security environment is complex. No dominant adversary faces the United States that threatens our existence with military force, but the global financial crises has exacerbated what was already a growing set of political and economic uncertainties. We are nevertheless in a strong position to shape a world reflecting universal aspirations and values that have motivated Americans since 1776: human rights; the rule of law; liberal market economics and social justice. Whether we can succeed will depend on actions we take here at home—restoring strong economic growth and maintaining our scientific and technological edge—defending ourselves at reasonable cost in dollars without violating our civil liberties. It will also depend on our actions abroad, not only in how we deal with regions, regimes and crises, but also in developing new multilateral systems, formal or informal, for effective international cooperation in trade and finance, in neutralizing extremist groups using terrorism, in controlling the proliferation of WMD, developing codes of conduct for cyberspace and space, and in mitigating and slowing global climate change.

Chairman FEINSTEIN. Good. Good. Let me begin.

I'm looking at a National Public Radio release dated February 3rd of this year and it begins, "CIA-directed air strikes against al-Qa'ida leaders and facilities in Pakistan over the past six to nine months have been so successful, according to senior U.S. officials, that it is now possible to foresee a 'complete al-Qa'ida defeat' in the mountainous region along the border with Afghanistan."

Do you agree with this statement? Has, in fact, al-Qa'ida leadership been decimated? Is it close to defeat? If not, please explain why you disagree. If this is not the case, why then are senior U.S. officials discussing this with the press?

Director BLAIR. Madam Chairman, I think that senior al-Qa'ida leadership is considerably less powerful, able to communicate with its forces, able to plan and conduct attacks than it was a year ago, two years ago. I would not share whoever it was who talked to that radio station's judgment that we are within sight of victory or that it is giving up on its aspirations both against the United States as partners and against the countries in the region. I have no idea why people would talk in those terms when the facts as I know them are not that optimistic.

Chairman FEINSTEIN. I don't know whether you'd care to comment on this, but I also notice that Mr. Holbrooke in Pakistan ran into considerable concern about the use of the Predator strikes in the FATA area of Pakistan, and yet, as I understand it, these are flown out of a Pakistani base.

The question I have is how do you view this situation? If the Pakistanis won't go in and decimate the terrorist leadership, and the terrorist leadership is allowed to grow, it's going to impact Pakistan negatively, perhaps even to the extent of one day hopefully not but possibly taking down its government. How do we develop the kind of nexus we should have with the government of Pakistan to really have an effective attack on people who are major national security threats both to Pakistan, to Afghanistan, and to our own country?

Director BLAIR. Madam Chairman, I think you put your finger on the key to dealing with the terrorists and extremist groups in that area. It does depend on Pakistan's effort, with our assistance. I think that Pakistan is sorting out some of those questions itself internally because the relationship between groups and tribes and the government and the security services and the armed forces has been very complicated in Pakistan in the past and there are a lot of different agendas being played out within those circles.

I think for our part we have to give it intense and persistent leadership. We have to let the Pakistanis know that we're there working with them for the long haul against these common threats, and that they need to come to the realization with the point that you basically expressed, that these are as much a threat to Pakistan as they are to others and they really need to put their shoulder to the wheel in a way that benefits all of us. I'm not sure that all of Pakistan is quite there yet and that's really our challenge.

Chairman FEINSTEIN. Let me, if I might, change to Hezbollah. Director Tenet used to tell us that Hezbollah was really far more sophisticated than most other groups of its type. In the wake of the

2006 war with Israel, has Hezbollah's position strengthened or weakened?

Director BLAIR. Strengthened.

Chairman FEINSTEIN. And you believe that today, then, it is a stronger threat to the United States or a stronger threat to Israel? How is it in effect a stronger threat today?

Director BLAIR. I think it's a stronger threat today because it has rebuilt the weapon stocks that it used up in the 2006 war. It has learned lessons from that war which it has applied to its capability in the future, and so it is better prepared for future conflict. As to what it will actually do, that's a harder question. It certainly believes that Israel is the enemy and the Israelis believe that Hezbollah is the enemy so there's a confrontation there that will go on for some time.

The attitude towards the United States, I think, is influenced by Iranian relations with the United States and Iranian calculations of what the effect of violence would be. So I think that it's really at least a three-sided game—United States, Israel, Iran, Hezbollah—four-sided. Syria is a fifth part of that calculation but your fundamental question about the capability, I think they are stronger than they were before.

Chairman FEINSTEIN. Thank you. Now, I wanted to get in one more question and tap your experience as CINCPAC and your knowledge of the Chinese–Taiwanese situation. I've read all your writings on the subject and I basically agree with your comments and I think they're very perceptive and astute.

The relationship has a very difficult dynamic to it—all the missiles on the coast of China faced at Taiwan, our defense sales to Taiwan which then irritate the Chinese, and yet the Chinese now beginning to take action to sort of soothe the waters.

The latest, I guess, is the head of the big, beautiful museum in Taipei going to Beijing to facilitate some sharing of art, which is also a small, but nonetheless welcome sign.

How do you view, in this new dynamic, the China–Taiwan relationship? What should we be aware of and what should we look out for?

Director BLAIR. I think, Madam Chairman, that the developments since President Ma was elected are the most positive that we've seen in recent years. And the steps that are being taken between his government and China are very encouraging in terms of working on practical problems like travel, bank transfers, art and so on.

I think that developing some momentum in terms of things that can be done for the benefit of both sides are important and I applaud both sides for taking those steps.

I think that as far as what we can do, a key part of it is making sure that military measures are unattractive to all sides, to both sides in that confrontation. And that means maintaining the balance, which is really what the Taiwan Relations Act calls for. So clearly, on the one hand, Taiwan should not be so defenseless that it feels that it has to do everything that China says. On the other hand, China cannot be so overwhelming that it can bully Taiwan.

On the other hand, Taiwan has to realize that its long-term security lies in some sort of an arrangement with China. It does not

lie in military defenses. So if we can keep that balance correct, then all of the incentives are toward solving the problems in political and people-to-people ways. And I think they can, over time. I think there are arrangements that could be made that would give Taiwan the international space that they feel they deserve and give China the reassurance that one China is a realistic policy.

And so we just have to encourage the events and make sure that military adventures are unattractive.

Chairman FEINSTEIN. Thank you. My time is up.

Vice Chairman.

Vice Chairman BOND. Thank you, Madam Chair.

Mr. Director, many of us on this Committee criticized the way the 2007 NIE on Iran was drafted, which in the key unclassified judgments left the impression in the public that intelligence community was not concerned about Iran's nuclear efforts.

Indeed, today's article in The Los Angeles Times notes statements by the President and Mr. Panetta, when he was before us for confirmation, about the intent of Iran to seek nuclear capability. And they go on to say, "This language reflects the extent to which senior U.S. officials now discount an NIE issued in November 2007 that was instrumental in derailing U.S. and European efforts to pressure Iran to shut down its nuclear program."

In light of that, do you believe that the release of intelligence community judgments, and NIEs themselves, can be damaging to our national security interests?

Director BLAIR. Mr. Vice Chairman, I agree that we can cause as much harm as good by releasing many of these NIEs on very difficult subjects in which a great deal of secret intelligence—which the taxpayers have paid an awful lot of money for us to use to collect secrets—are put forth in the wrong way. And I think it's something we have to think carefully about.

Frankly, when I was here for confirmation hearings, I was a little less aware of how difficult this question is than I am in the couple of weeks since I've been on the job. The preparing of these remarks was not easy, in trying to figure out what to say in unclassified settings and classified settings. So it's something that I think can cause us problems if not handled very well.

Vice Chairman BOND. Well, I would agree with you. I'm a great believer that experience is what you get when you expected to get something else. And I hope the intelligence community learned something from it. I would hope that you would be producing an update of the Iran nuclear NIE.

And do you—for the record, at this point—have any assessment of the likelihood that Iran would forgo the development of nuclear weapons? Is there anything that you could say publicly that would indicate they are looking at forgoing this capability that most of us think they are pursuing?

Director BLAIR. I can say in this forum that Iran is clearly developing all the components of a deliverable nuclear weapons program—fissionable material, nuclear weaponizing capability and the means to deliver it. Whether they take it all the way to nuclear weapons and become a nuclear power I think will depend a great deal on their own internal decisions.

But I do think that the international community—no one in the international community wants a nuclear-armed Iran either. The question is, what are you going to do about it? And if the international community can put together the right package of sticks and potential reassurances that will meet some of these security concerns that Iran feels, then there's a chance. There's a chance that they will choose another course. Other nations have.

I don't think it's a done deal either way, but I think it's going to be a difficult task for the international community both because it's split, and because of the advantages that many Iranians clearly feel would be served by having nuclear weapons. So I would not rule it out, but it's not something that's going to fall off—it's not like falling off a log.

Vice Chairman BOND. Turning to an area where you have special expertise and I have a great deal of interest, I noticed that an Indonesian court recently handed out 15-year sentences to Jemaah Islamiyah leaders Abu Dujana and Zarkasih in April of 1908 and they've not conducted a large-scale anti-Western attack since the Bali bombing in October 2005.

How would you characterize the relationship we have with Indonesia on counterterrorism and intelligence issues? And how much do you think they have degraded the capabilities of JI, which I regard as a serious terrorist organization?

Director BLAIR. Mr. Vice Chairman, as you say, we've discussed Indonesia and I think we agree that Indonesia has made great strides against JI. Once the Bali bombing really jolted them into realizing what a threat it was to Indonesia, they took very aggressive action.

We assisted them in certain ways, but the primary drive and the primary actions were taken by Indonesia—as they were by other Southeast Asian nations who took on this task, Malaysia, Singapore in particular, in addition to Indonesia.

So think JI is much weaker than it was. It's not entirely eliminated, but I think Indonesia's done a good job of bringing it under control.

Vice Chairman BOND. I agree also with your suggestion in your statement that current low prices for energy, along with the possibility that much higher prices will come when we recover from this economic downturn, which I think is going to happen if we can take the toxic assets out of the financial system, that we face very high fuel prices, with all of the problems that causes. And I know the International Energy Agency has concluded that, just to replace the accelerating depletion and maintain current oil levels through 2030, we'll have to find the equivalent production of four-and-a-half Saudi Arabias.

Do you think that we can expect that magnitude of production, given constraints on North American exploration and production, as well as the fact that national oil companies like Venezuela's dominate 80 percent of the world's oil reserves? And do you believe this energy security problem presents a serious threat to our national interest?

Director BLAIR. Yes, sir. I agree completely that it presents a very serious threat. And I also agree with your analysis that if we go on doing as we did before—more nationalized oil companies that

are not investing in their infrastructure, low prices currently knocking out oil projects—and then we resume growth, all of the tight supply-demand that we've seen in the last couple of years will be there, with the transportation structure stretched to the limit, small interruptions having huge spikes in prices, the consequence economic disruption.

We have got to change that. We have got to change that balance or else we are storing up great trouble for the United States, friends and many others in the world.

So it's got to be a multipronged approach of working on both production and alternatives and conservation in order to get off of this oil supply that is strung tight as a wire throughout the world.

Vice Chairman BOND. Thank you for a very thoughtful answer. Madam Chair.

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

Senator WYDEN. Thank you very much, Madam Chair. And Director Blair, thank you for your courtesy and responsiveness to me over these last few months.

A number of Senators on both sides of the aisle are very concerned about cyber terror, and you've referred to it; colleagues have referred to it. And I want to start my questioning in this area by your assessment of how vulnerable is the U.S. power grid to cyber attack.

Director BLAIR. I think a lot of things have been done in the power grid recently with the realization of its vulnerability. A couple of years ago I'd say it was a piece of cake to people even with quite low skills. Because of the emphasis on it, it's not down at that level; however, a very skilled attack by a group that really knew what it was doing could cause us some problems. So there's a great deal more work that has to be done there.

Senator Wyden. I'm also concerned that the development of the smart grid could create more potential vectors for cyber attack. Do you share that view?

Director BLAIR. I think in building a smart grid, Senator, we have to take security into account right from the beginning. As you know, anytime you centralize and make efficient and cut your margins, you open up vulnerabilities not only to just stuff happening but also to malicious attack like cyber. So I don't know the technical details of the SCADA systems and interconnections of the smart grid, but if we don't build in a more robust cyber defense from the very first building block, we're leaving ourselves wide open.

Senator WYDEN. In your view, Director, are there any terrorist groups capable of mounting a significant cyber attack on our country today?

Director BLAIR. When I think of the things that terrorist groups can do to us, Senator Wyden, the cyber capability is not the one in which I feel they have the greatest skills for the greatest destruction. I think that they have other terrible things they can do to us that they are working on harder, they're better able to do, and they seem to be more motivated to do. So it's possible, but I don't think the combination of terror and cyber is the nexus that we are most worried about.

Senator WYDEN. Let me turn to another subject, if I could. I've been very concerned about the potential for violence against Iraqi translators that are currently working for our military. It's been important that these individuals' identities be kept secret so they aren't subject to reprisals and retribution from anti-American groups inside the country. I've worked with the Defense Department in this regard to try to protect these translators with masks. DOD has tried to work with our office.

But I'm also concerned about the possibility that anti-American elements of Iraqi government ministries might seek to uncover these translators' identities by accessing tax records or other government information. How would you assess right now the seriousness of this, and particularly, can you tell us anything about ministries or other elements of the Iraqi government that the translators ought to be concerned about?

Director BLAIR. Senator Wyden, I know the threat to translators is real. I have friends from the armed forces who personally took steps to get translators out of Iraq because it was so dangerous to them. The overall situation is much better now.

I was not aware of the particular problem of Iraqi government records being a potential source to identify them, which could be used as the basis for making attacks on them. I'll have to take a look into that and get back to you. But the general principle of making sure that those who helped us through providing translating services is the right one, and we need to help them.

Senator WYDEN. I'd appreciate a prompt answer on that, Director, because I am concerned about the possibility of these anti-American elements looking at yet other strategies to make life difficult for our translators.

Director BLAIR. Right.

Senator WYDEN. These translators are performing a great service in terms of advancing American security in a very difficult arena, and I appreciate your interest.

Let me ask you a question, if I could, now about Iran. Obviously members of this Committee are following the Iranian presidential election, and it's certainly my hope, I'm sure shared, that President Ahmadi-nejad gets replaced by a more stable and more rational individual. But of course in Iran, the president is not the commander in chief, and his influence over foreign policy is more limited than perhaps many political systems.

Is it your view that a change in president would result in a significant shift in Iranian foreign policy? And let's start particularly with the prospect that a replacement of President Ahmadi-nejad would result in a shift in nuclear policy.

Director BLAIR. Senator, I don't believe that a change of a single individual as president would change in and of itself a fundamental Iranian policy like development of nuclear weapons. I think that those decisions are taken by the groups around the Supreme Leader, which is more than one person. So I think that we can't put our hopes in Iran on great changes to their policy towards the United States based on the presidential election itself.

Senator WYDEN. I think you've touched on this, but what can you say in a public setting with respect to Iran's current support for

Hamas and Hezbollah? And what does Iran get out of providing this support, in your judgment?

Director BLAIR. I would say there are at least two motivations for Iran's support of these groups. One of them is to seize control of the resistance narrative within the Middle East as opposed to the peace narrative, which is what we and many others favor. Iran seeks to associate itself, even though it's Persian, with the Arab cause against Israel. It feels that will benefit its power in the region.

And the second one is, fundamentally I think they don't like Israel, and anything that they can do to help somebody that's going against Israel is sort of good in their mind. So I would say those two things motivate them.

Senator WYDEN. I share your view.

Madam Chair, thank you.

Chairman FEINSTEIN. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Madam Chairman.

Two questions on China: When President Clinton was President, they obviously had the missile fire-over, and it turned out in fact that the missiles were empty. But that certainly didn't make any difference as far as the international community to find that out. One of the things I've always worried about—I've always been worried about is the fact that in the PLA, that these more senior generals, the ones who would have been responsible for what went on at that time, for example, are not being followed in their relative moderation by the younger PLA officers coming up—that they tend to be more nationalistic, more willing to take risks. And I'm interested in your view on that.

Director BLAIR. I think that most of our evidence on that, Senator Rockefeller, is pretty incomplete and somewhat anecdotal. My personal experiences with—when I think of my personal experiences with junior officers and when I think of my discussions in China, I think that in general junior officers tend to be more aggressive and swashbuckling. They are definitely told to be ready to attack Taiwan, to fulfill the historic destiny of China, and when you train junior officers to go do a military job, they become enthusiastic about it. They put their heart into it. They want to do it.

You know the saying that war is old men sending young men out to die, and the older men often, I think, tend to be a little more aware of the penalties and the dangers and perhaps are a bit conservative.

So it's hard to say what will happen when these junior officers become more senior officers—get a little more seasoning, get the real responsibility, have to look the issues in the eye if you unleash the hordes.

China is not a combat service. If you look at the junior officers in the United States armed forces, they know what war is. They've been out there. They've seen their buddies and their men die. They know that things happen that you're not planning on. The PLA officers don't see that. They do war games; they do exercises. Nobody bleeds and dies in exercises.

So I think you have a valid concern that the younger generation of the PLA may not have as careful an appreciation of war as their senior officers.

That being said, I do think that the overall leadership of China is a fairly careful, conservative group who recognize that China's primary problems are internal—social change, achieving enough economic prosperity that they can take care of their population and raise the standard of living. And I think they also think that you can't believe everything you hear from the armed forces, and if you have a more careful way, it's probably worth taking it.

So I think within the leadership that actually makes decisions in China, there's a certain amount of care and caution, but I would not discount your observation about some of the junior military officers.

Senator ROCKEFELLER. The senior leader in China is not of the military.

Director BLAIR. Is not what, sir?

Senator ROCKEFELLER. Is not of the military.

Director BLAIR. Right.

Senator ROCKEFELLER. And that adds, I think, to the equation. I'm not quite sure how.

Let me skip to India. It's amazing to me to read the book, written in 1947, "Freedom at Midnight," and compare that to what's happening today and to look at the dynamics between India and Pakistan, Kashmir, the rest of it, at that time and the situation today. And I'm an optimist—I have to be an optimist. We all have to be optimists because we have to search for solutions. But it's really quite difficult, absent what we focus on, and that is, is India going to send a nuclear bomb towards Pakistan and Pakistan towards India? Maybe there will be military clashes. There have been for years in the Kashmir area.

What it is in the makeup of those two countries that actually wants to find resolution, that wants to get along, I'm not sure where that is. Where do you see that? Is it because of the nuclear power thing? Does it go beyond that?

Director BLAIR. I think there are a number of factors, Senator Rockefeller, that would perhaps change the attitude that was there in 1947. One certainly is the nuclear—possession of nuclear weapons by both sides. There is no doubt that senior Pakistanis and Indians feel that a war between them that got out of hand and would result in tremendous devastation for both sides, far more than the issues in general in Kashmir that they're confronting over.

I think also the violent extremism in the region of South Asia is changing attitudes, perhaps slowly, in Pakistan and in India. We talked a little bit about that earlier in this session and how Pakistan is realizing that this violent extremism can be a threat to them. The Indians too are becoming concerned about—

Senator ROCKEFELLER. Let me interrupt you because of my time problem. If you look at virtually all of these countries across the world, outside of Europe and us perhaps, the thing that strikes you more than anything else is that over 50 percent of all of the populations are 25 or below, 20 or below, 14 or below, and therefore have neither any sense of history, any sort of sense of the future, any sense of a coherent pattern within their own lives, and that is a destabilizing factor. Now, that doesn't just apply to Pakistan and India, but I wonder if you would comment just on the age factor and the future of radicalism in really the world.

Director BLAIR. I've looked at some of the academic research on it, and, Senator, there are far more questions than there are answers, and it would not be useful for me to talk about it at that time. But it's sort of one of those—it's something big out there; we just don't know which way it's going to cut, and we ought to be working on it and thinking about it some more.

Senator ROCKEFELLER. I'll be back in a second round. Thank you, Madam Chairman.

Chairman FEINSTEIN. Thank you very much, Senator. Senator Bayh?

Senator BAYH. Thank you, Chairman, and thank you, Director. I'm going to try and move fairly quickly. I had several questions I wanted to ask in a limited amount of time.

You're fresh to the job, two weeks, as you mentioned, and sometimes first impressions can offer some insights—someone coming into an organization new—a new set of eyes to some problems, so I'm going to ask you three quick questions about this. And since this is an open hearing, we're essentially talking to the American people.

I've been struck since my service on this Committee by how much we don't know about some of the major challenges to our national security. And that puts leaders like the President and yourself in positions of making life-and-death decisions on the basis of imperfect knowledge or gaps in the knowledge. So I'm interested in your initial impression after the first two weeks about just how much we know about the threats to our national security. I would put it to you this way. On a scale of one to 100, with 100 being perfect clairvoyance and one being cluelessness, how would you rate our capacity to assess the threats that we face?

Director BLAIR. Senator, based on 10 days of hard work and a little bit of thought around the edges, I'm pretty confident that we have a general idea of what threats, opportunities and trends are. What we can only do, in a prioritized and spotty way, is really drill down into that issue to get the real tactical-level details—

Senator BAYH. So your answer is, it's pretty good.

Director BLAIR. I'd say in general it's pretty good.

Senator BAYH. Where would the most significant gaps be?

Director BLAIR. I'd say the most significant gaps are in the areas that are not traditional state threats, that we have not figured out the right way to collect information and we have not grown the analysts to do it. I'm thinking of Senator Bond's energy security. We understand a lot of it, but we don't understand the detail that we should in order to be able to make very precise recommendations. I'm thinking of things like some of the—

Senator BAYH. So we're better with nation states, with the possible exception of North Korea and some aspects of Iran. We're not as good with non-state actors.

Director BLAIR. We can take a nation state apart if we put the resources on it.

Senator BAYH. What's your initial assessment of the structure that was adopted in the wake of 9/11? You've been there 10 days; it may be too soon, but I'm interested in your first impression. You know, we created the directorship. The CIA Director is now different. Is it your initial impression that that is a useful structure?

Should we contemplate combining those two missions going forward? I mean, do we have more coordination, or have we added another level of bureaucracy or some of each? How would you net that out so far?

Director BLAIR. I think we have more coordination, Senator, with more to go. It still requires top-down pressure to achieve integrated operation in many areas. It doesn't come naturally to some of the——

Senator BAYH. So your initial impression is the new structure has been a positive.

Director BLAIR. Has been a positive.

Senator BAYH. Now, some people suggest possibly combining the two functions in one human being, but your initial impression is that the division is, on a net basis, a better structure.

Director BLAIR. You mean go back to the old Director of CIA as Director of Central Intelligence, that one?

Senator BAYH. And it also has the coordinating function with a little more heft than was previously the case.

Director BLAIR. It's interesting; I talked to a previous Director who had both jobs, when it was, and he said, I don't know how I did them both. They're two separate jobs. They should be done separately. And my first impression is I tend to agree with him, but I'll be talking about that.

Senator BAYH. Do you get along pretty well with Secretary Gates?

Director BLAIR. Yes, sir.

Senator BAYH. My impression is a lot of this has to do with who the personalities are and how well they get along, as much as it does with the structure.

Well, thank you for your initial impressions. Just a couple more things. There are published reports from time to time about the timeline for when Iran would have a weapon capability. To the extent you're allowed to talk about such things—and the Israelis seem to have a little more aggressive timeline than has been published with regard to us—can you give the American people any indication about what timeframe we're looking at here, with having to confront that event?

Director BLAIR. Yes, sir, I could say that if Iran pursued its centrifuge uranium technology, they could have a weapon as early as 2010, but it might take them until 2015.

Senator BAYH. So that's next year—possibly as soon as next year.

Director BLAIR. It's possibly as soon as next year.

Senator BAYH. And they just launched a satellite, if I'm not incorrect, so they're clearly working on their missile capabilities.

Director BLAIR. There's a missile that will carry it, and you don't need a missile to carry it.

Senator BAYH. So in your opinion, Director, any combination of carrots and sticks we could use to dissuade them from seeking a military capability, or is that just a strategic decision they've made that they're going to pursue?

Director BLAIR. We have seen in the past that international scrutiny and sticks have made changes in their behavior, in pieces of it. They have not——

Senator BAYH. Has the lower price of oil made them more vulnerable at this moment, so possibly sticks might be have a little bit more impact?

Director BLAIR. I think that the lower price of oil has an effect. I think it has to be more comprehensive, though. The economic penalty that they would pay would have to be more comprehensive in order to really be a stick that would have an effect.

Senator BAYH. Well, they are somewhat vulnerable to imports of energy.

My last question—I've got about a minute left here—there was a published report in the last couple of days to the effect that the Pakistani government has been more cooperative in dealing with al-Qa'ida in the tribal areas. They view them as foreigners that are disruptive. They've not been as cooperative with regard to rooting out the Taliban, particularly in the city of Quetta—I hope I pronounced that correctly—because they know that we're going to be leaving Afghanistan at some point in time and they view the Taliban as not only some leverage within Afghanistan but also possibly as a counterbalance to India.

Is that your initial impression as well, that they have not been cooperative in dealing with Taliban, particularly the leaders who possibly are headquartered in the Pakistani city I just mentioned?

Director BLAIR. I'd rather go into specifics in closed session, Senator, but the overall idea of the unevenness of Pakistani cooperation is correct.

Senator BAYH. Director, thank you.

Chairman FEINSTEIN. Thank you very much, Senator Bayh. Senator Hatch is not here. Senator Mikulski is here.

Senator MIKULSKI. Director Blair, first of all, welcome. We're very pleased regarding your confirmation. I think we're very fortunate that you've chosen to come back to government service. And I think we share with you your compliments to the men and women who work in our intelligence services, both abroad and also here within our own country. The fact that we haven't had an attack in seven-and-a-half years is a tribute to them.

Let me go right to my questions. One goes to Iran. Like Senator Bayh, I'll do some quick ones.

On February 3rd, Iran used its own rocket to launch a small communications satellite in orbit. They began this satellite some years ago, but they're only the ninth country in the world to have that ability, to put a rocket up—a satellite into space. The State Department calls it worrisome. What is your assessment of what that means, and do you believe that we need to, in addition to their nuclear capability, additionally be worried about their growing scientific and technical capability?

Director BLAIR. Senator Mikulski, I think Iran's space launch demonstrated that they are mastering multistage missile technology, and that technology can be used for peaceful pursuits and it can be used for military pursuits. They have some smart scientists and good engineers. If they put resources on it, they can make a serious missile force.

Senator MIKULSKI. Thank you. I also have another question about Egypt and the tunnels into Gaza, but I would like to keep that for a closed session.

I'd like to go to the cyber threat, essentially which I think is a transnational threat. In your testimony, on page 38, you talk about how because our technology, our infotech technology is now increasingly designed and manufactured overseas, this in and of itself can present a threat. Could you elaborate on that?

Director BLAIR. The the operating systems of virtually all equipment, whether it be communications or also military equipment, is partly embedded in the chips that are built into the system, and then it's partly the software that is handled through computers. And if you know where a particular chip is going and what it's going to be used for, and you have control of it for a while, you can doctor it for purposes that—you can help make it go stupid; you can destroy it.

And so, clever adversaries, if they can get into that supply chain at various points, can affect the equipment that we use in our communications systems, in our military weapons systems, and elsewhere. So we just have to figure out ways to protect this all the way.

Senator MIKULSKI. Well then, based on that, would you say that in terms of the cyber threat, where we often think a state-supported threat, a big country with big technology capability could target us, but are you saying that because of that—and also, further on in your testimony—that both organized crime and then individual kind of hackers for hire could pose threats to our critical infrastructure in some way or other?

Director BLAIR. As far as technical capabilities go, I think either one of those groups could pose threats. In terms of motivation and why they do it, I think there are probably different factors at work. Criminals obviously have great incentive to go after financial networks and just earn money. Hackers seem to take a joy in strange ways—watching lights go out, funny things on screens. They seem to do it for reasons that are hard to figure out. I think the technical fixes and the sort of cooperation are sort of similar to stop all those kinds of threats.

Senator MIKULSKI. Well, as I understand it, General Jones at the National Security Council has asked Melissa Hathaway to do a 60-day review of our cyber security situation. And I know the Chairwoman has delayed our hearing on cyber security, our classified one. And we hope to really probe into this because I think this is one of these threats that is an invisible threat, and then, wham, it could have serious consequences.

Let me get into one other area, though, before my time is up, and it goes to the Bayh question, what did you find in your first 10 days? What I see—and I wanted your reaction—is in this year's threat, world threat assessment, there is a growing emphasis once again on narcotics. Narcotics seem to be an insidious evil that has many tentacles that could undermine the United States of America or our efforts. Look at Mexico. We all know of the terrible death of a general in Cancun. Cancun is now being guarded. Afghanistan—corruption seems to go up to the highest levels, and we're going to be asked to send troops essentially to defend their corrupt situation.

Is it one of your surprises in your return to government in the 10 days the growing issues around narcotics, and do you see kind

of expanding our counternarcotics effort because it has such an insidious and undermining effect on us?

Director BLAIR. I think it's gotten worse in the time that I've been out of government, and the effect on—I mean, we all know the human tragedy of drugs within the country—blasted lives and crime and so on. The international effects of it, though, I think have been worse in the last dozen years in the areas that you mention. So it is one of the things that I think has gone the wrong direction.

Senator MIKULSKI. Thank you. Thank you very much.

Chairman FEINSTEIN. Thank you very much, Senator. Senator Chambliss is not here. Senator Nelson is not here.

Senator Whitehouse?

Senator WHITEHOUSE. Thank you, Chairman. Welcome back, Admiral. It doesn't seem like very long since you were last here. We don't let you get away far.

You note in your testimony the importance of keeping up pressure on al-Qa'ida in the Federal Administered Tribal Areas. Not too long ago Senator Snowe and I traveled to Eastern Afghanistan, right adjacent to the FATA, and over and over again in the different briefings we received, the problem of the border came up. To the Taliban syndicates operating in that area and to al-Qa'ida, it matters not at all. It does not enter their calculations. It is a zero factor. But for us and for the legitimate governments on either side, it is a considerable impediment to working in a concerted way to address that problem.

I was briefed by our military commanders about the establishment of the border coordination centers, which would be trilateral—U.S., Afghan and Pakistan. Only one is up. We didn't have the chance to have a look at it and see how effective it is. Others are under way.

It strikes me that, given the importance of this threat in that area, given the significance of the disability that the border presents to our efforts, that these border coordination centers should be a very high matter of national priority. Now, I understand that they raise a whole variety of issues, including how do you make sure that the Afghan and Pakistani participation in those coordination centers is secure and doesn't compromise important information? And that's a difficult problem, but it doesn't seem to me that it's an insoluble problem.

I'd like to hear how high a priority you think those are and what you think we can do to accelerate that strategy, because in theory we should be able to be operating in real syncopation on one side and the other, driving them over the border and catching them on the other side, and that capability doesn't really seem to be established yet.

Director BLAIR. Senator, I agree with you. In theory, we ought to be able to run a seamless operation. The trouble is that our partners on those two sides of the borders have quite different capabilities, motivations and willingness to work with us. So in fact what you find is you have to deal differently with your partners on one side of the border from that on the other.

There's no doubt that the solution to the area has got to be something that goes across borders. Afghanistan can never be secure if

the Pakistan FATA area is not. And an international effort beefed up in Afghanistan is not going to be successful unless there's addressal from Pakistan. And in fact the Administration review that's going on now is an Afghanistan–Pakistan review and, as you know, Special Representative Holbrooke's responsibility goes across both areas.

We talked about those border posts. I'm certainly for them in theory. I just haven't had time to see whether from a practical point of view they are fulfilling the potential that we both think they should have. And if we don't do it that way, we've got to do it some way in order to use our intelligence capabilities to have the Pakistanis enforcing law and order on their side of the border and dealing with the insurgents on the Taliban side too. So we'll continue to push it.

Senator WHITEHOUSE. To the extent that if we don't do it that way, we have to do it some way, to paraphrase what you said, I'm not aware of any other some way, which is one of the reasons I'm focusing on these particular centers. If you can say it in an open session like that, do you have something else in mind when you're—

Director BLAIR. Well, if we could get a—

Senator WHITEHOUSE. Do you have to do it some way other than this?

Director BLAIR. If we could get a full-up intelligence-sharing arrangement with the Pakistan armed forces that would sort of work through the Pakistani army from the center out, that would be another way to do it rather than putting our effort on the border in the local situation. We could empower Pakistan units in the counterinsurgency operations that they are conducting. That's really what I had in mind in terms of the alternative.

Senator WHITEHOUSE. Yes. I agree with you. I think it's actually not necessary to be physically located there, so long as the goals of trilateral participation and quick response and ability to effectively marshal our assets on both sides of the border are met.

Director BLAIR. Right. And not allowing the bad guys to go over an artificial line and thumb their noses at us because nothing will happen on the other side of the line.

Senator WHITEHOUSE. Yes.

Director BLAIR. That's the objective. Yes, sir.

Senator WHITEHOUSE. Precisely.

This is almost a philosophical question, and it touches on what America is and what it should be and all of that. But if, hypothetically, Americans had done something that was truly horrible and was classified deeply secret and you were faced with the choice of whether to, to some extent, confess it in order to correct it versus keeping it deeply classified in order to avoid the reputational harm that might ensue, how would you analyze that question, and what are the principles or the priorities that you would bring to bear on it?

Director BLAIR. I believe in my bones that the United States acts lawfully and legally when it does it right. I think that the combination of the laws that are passed, the training of the people we have in the executive branch—we have a solid legal and moral foundation for what we do, even in areas that involve killing people like

the armed forces and the things that we do in the intelligence services. Therefore, I believe that if something terrible were done, it would be done by somebody who had broken the laws and the procedures and the training that we'd given them, and that person should be held to account for it.

Senator WHITEHOUSE. My time has expired. Thank you, Admiral. Thank you, Chairman.

Chairman FEINSTEIN. Thank you very much, Senator.

Senator SNOWE is not here. Senator Feingold, you're next.

Senator FEINGOLD. I thank the Chair.

Thank you, sir. In your opening statement you stated that terrorist threats to U.S. interests in the Horn of Africa are increasing. And you also indicated that U.S. counterterrorism efforts there will be challenged by the "high profile U.S. role in the region and the perception that this constitutes foreign intervention in Somalia." But the problem, as I've long seen it, is that the U.S. role is not that it's too high profile; in most respects, I think our engagement has been really grossly insufficient. But to the extent there is a perception that we support foreign intervention, isn't that based in part on our association with Ethiopia's actual intervention?

Director BLAIR. Certainly the Ethiopians weren't very popular in Somalia, and the perception that anybody was helping them wasn't popular there. Yes, sir, that's true.

I think my remarks were referring more to the—you're more familiar than I am with the legacy in Africa, and the experience with the attempt to establish Africa Command I think was instructive in that regard. I think most American military people thought that was a helpful thing and most African—many African countries of course thought that this was a secret plan for a military-dominated policy in ways that had hurt them before. So I think that we don't always take our actions in a way that makes them achieve their goals.

Senator FEINGOLD. Okay. But specifically on this issue of Somalia and Ethiopia, I take it you're indicating that the perception would certainly be by many in Somalia that we were pretty deeply associated with the Ethiopian intervention. Is that correct?

Director BLAIR. As I'm thinking about that question, I'm not sure I know enough to answer that correctly. I think our policy in Somalia was not very coherent in the past few years with all of the turmoil and the warlord fighting.

Senator FEINGOLD. Well, that's for sure. That's a given. My question is, what is the perception of what our role was vis-a-vis Ethiopia's intervention. My guess is and belief is that they think it was—what the facts are is one thing—

Director BLAIR. Oh, I see. Right.

Senator FEINGOLD [continuing]. But the perception is that we were deeply involved. Is that something that you would agree with?

Director BLAIR. I don't know. I don't know. I'd have to get back to you.

Senator FEINGOLD. Okay. We'll move on.

If we're to overcome these challenges to our counterterrorism efforts, doesn't it make sense—and you're alluding to this already—to develop a strategy that strengthens diplomatic, humanitarian

and other aspects of our policies that are not perceived as foreign intervention?

Director BLAIR. Yes.

Senator FEINGOLD. And I'd like to repeat that really almost stunning sentence with which you opened your statement. You said, "The primary near-term security concern of the United States is the global economic crisis and its geopolitical implication." And then you went on to describe how the crisis is already destabilizing some countries, with more to come.

So do you think we're well positioned right now to monitor around the world the effects of this crisis and the ways it will damage our national security? Is the intelligence community positioned to anticipate, for example, when a government's going to fall, when a government's going to turn against us, or that it would in some cases simply lack the resources needed to work with us on issues of mutual concern?

Director BLAIR. Senator, I think we'll be able to have some warning of these economic difficulties turning into real political difficulties.

I think my placement of the economic crisis at the head of the list is formed by my thinking that in recent years it seems that we've had more security problems from failed states, from states that have been in trouble, than we have from strong states that have been an adversary to us in the traditional way. It seems that when you have states that are on the feather edge of being able to get a grip on law and order and economic development and so on, if that is knocked off course by economic difficulties, by the ethnic/sectarian/tribal rivalries takeover—and I just think if you look at the numbers, there are a lot of states who were barely keeping up with the sort of six percent growth in Africa, with the overall couple of percent growth in the world, and when those growth rates go down, my gut tells me that there are going to be problems coming out of that. And we are looking for that to see what it will be, and it seems that those areas are what have caused us the most problems in recent years.

Senator FEINGOLD. I understand you've already indicated this in response to some questions from Senator Bayh, and all I can say is I couldn't agree with you more. This is absolutely an essential understanding of what the threats are, is that these are the places where we really, really are going to have problems if we don't anticipate it. So I thank you for reiterating that.

I think part of the lesson here is that we have to be prepared to anticipate the crises before they happen and not constantly being in a reactive mode. And Mr. Panetta testified at his confirmation hearing that he was concerned that we aren't allocating enough resources to the countries and regions that the intelligence community has already assessed or where our "primary near-term security concern" is taking place.

Mr. Panetta also committed to conducting a review of CIA operations and resources to make sure that we have a global focus and are considering long-term and emerging threats. As DNI, will you commit to undertaking an intelligence community-wide review along these lines?

Director BLAIR. I think that's a very good idea to do that, Yes, sir.

Senator FEINGOLD. Another lesson is that anticipating and tracking complex, multi-faceted issues—like the impact of economic crises and instability—and the likelihood of a particular region of the world becoming a terrorist safehaven requires a combination of clandestine collection and diplomatic and other overt reporting.

Director Blair, do you agree? And, if so, how do we go about repositioning all of our government's eyes and ears, both clandestine and overt, so that we're not being caught flat-footed?

Director BLAIR. I think that the clandestine side of it probably is the more difficult. There are a great number of sensors out there in nongovernmental organizations, travelers, businessmen in the open-source intelligence. So, we can get, I think, a good general idea of what's going on in troubled areas without having agents there.

But then, to get behind that, into the motivations of the criminal leaders and other leaders who are taking advantage of the situation for their own things, I find that that's where the open-source intelligence stops. That's where you have to get people on the ground; you have to bring signals intelligence to bear.

And then, frankly, one of our collection difficulties is trying to move that spotlight around so it is on the right places. We can't cover everything to the depth that we would like and we need to make good choices.

Senator FEINGOLD. And then even when we are able to cover things, somehow we have to put together the clandestine and overt information in a coordinated way. And in this regard, I mentioned to you before, this Committee passed legislation last Congress creating an independent commission to study this problem and make recommendations. So, I hope you'll work with me in getting this commission in place, because the sooner we do it, the better we'll be able to get ahead of these crises. My time's up. I apologize.

Chairman FEINSTEIN. Thank you very much, Senator.

We could have a brief second round, if that's agreeable to you.

Director BLAIR. Sure. Yes, ma'am.

Chairman FEINSTEIN. The country that hasn't been discussed, that I think is a very important fulcrum in all of this, is Russia—Russia under Medvedev and Russia under Putin; and where is that country going; and can it become a dependable partner for the United States?

It seems to me that there's a situation where virtually anything that happens seems to rub Russia the wrong way. And yet what we need is a real partner in nuclear nonproliferation, in counterterrorism. How do you see this relationship at the present time, and what would you advise American policy be to improve it?

Director BLAIR. I think the economic crisis is probably causing Russia to do some reconsidering. They've been on a roll for the past 10 years or so, with oil revenues and other revenues. That, combined with a, sort of, reassertion of Russia prerogatives in the world has made the government enormously popular and given them a free hand to continue that.

But the social contract they struck was continued economic prosperity and a good strong Russia, in return for pretty sharp limita-

tions on personal freedom. That contract is fraying now, I think, with the global economic prices—the price of oil going down; we’ve already seen demonstrations in Russia.

I don’t think their regime is threatening right now, but they show popular discontent being right under surface if the Russian government can’t deliver the economic goods that have been a strong basis of their popularity. So, I think Russian has to rethink what it’s doing.

As far as its overseas policy goes, I think that Russia has—a certain self-image it’s projecting. But, I also think that they have specific interests that they view, and that there may be areas—and I would advise this to policymakers—that we can find a match between what Russia wants and what the United States wants.

I’m disappointed, frankly, in the Russian role in the Manas base negotiations in Kyrgyzstan. It appears that Russia is not playing a helpful role, even though, in general, Russia believes that the United States’ role in Afghanistan and in dealing with the terrorism in the country is to their good too, because they face, of course, Sunni violent extremism in their Southern areas.

So Russia has a certain amount of ambivalence. They don’t mind poking a stick in our eye if they can, but they do, I think, recognize that there are some things that we see together. On Iran, Russia does not want a nuclear-armed Iran, but it also would like some other things from Iran.

So you see this ambivalence in Russian approaches to individual issues. And where there’s ambivalence, perhaps there’s a chance to work out some deals. So, I think we have to explore that.

Chairman FEINSTEIN. As I look at it, if you look at just the geopolitics of the big, large powerful nations—Russia, China, India, the United States, the European community—it seems to me that the asymmetric nations of the world, and the potential threat from this asymmetric nature of the world today should bring those big nations together.

Instead, we always get tripped up. There was the Georgia escape—and I don’t know if you’ve had a chance to look at that as to if there is blame, where that blame rests, in terms of beginning that; and what are the chain of dominos, if any, that it has unleashed. Would you care to comment on that part of the equation?

Director BLAIR. I haven’t had a chance yet, Madam Chairman, to sort of go back over how that crisis came off. But, I agree with you that there are many areas in which the interests of the large countries run very much together.

And I think, to the extent that they feel that those are really strong interests that really threaten them, you get a higher level of cooperation than when they think that they can be, sort of, played also to gain some advantage, at the same time you’re getting enough protection for yourself that you’re satisfying national needs.

But, I think we should probe that with Russia, as we should with the other countries that you mentioned, and keep our hedges up so that if things turn out badly we can cover our own interests, but look for these areas.

Chairman FEINSTEIN. Would you care to put on the record where the main cyber threats to the United States—what two countries they are coming from?

Director BLAIR. I can tell you, in terms of capability, that Russia and China—and I'm talking both military and civilian hackers who may be hired by crime or may be motivated—they're right up there at top of the list.

Chairman FEINSTEIN. Do you see any nexus between the Russian organized crime, cyber networks, and the government?

Director BLAIR. I'd rather not answer that in this session, Madam Chairman.

Chairman FEINSTEIN. Okay, fair enough.

It would be fair to say, then, that the great bulk of the cyber intrusions are coming either from China or from Russia?

Director BLAIR. They're coming from Internet Protocol addresses in those countries. As you know, you can bounce around to disguise where you're coming from, but a large portion of them are coming out of IP addresses in China and in Russia.

Chairman FEINSTEIN. Well, where I'm going with this is, we know that we are going to be looking at cyber in some detail on this Committee—

Director BLAIR. Right.

Chairman FEINSTEIN [continuing]. And yet it seems to me that, other than the intelligence world, there is a very real policy gap out here where the diplomatic world needs to step in. And when things happen, countries need to get demarched, as opposed to keeping all of this under wraps so that all one does is build one's own technology to get closer and closer to cyber warfare.

Candidly, I am not interested in doing that. I am interested in holding countries responsible for the behavior of their entities. And I think it's a much more responsible course in the long-run if you have American policymakers heavily engaged with their counterparts in other countries, driving toward international treaties and agreements which prevent cyber intrusions which could result one day, if left unaddressed, in a cyber war.

Director BLAIR. I agree that if we could develop some sort of a code of conduct and approach that the major nations agreed on to cyber space, the fact that we have—although somewhat imperfectly—in the high seas maritime regime, we have a little bit of in the space regime in which everybody recognizes that if we turn the offense loose in these areas, it's to all of our disadvantage, that would be in the interest of all of us. And it would apply some regulation to these activities more at the source than having to deal with it the way we do now.

Chairman FEINSTEIN. Thank you very much.

Mr. Vice Chairman.

Vice Chairman BOND. Mr. Director, I want to go back to that in just a moment, but some of the questions that have been raised brings me back to the statement for the record, which began: "The primary near-term security concern of the United States is the global economic crisis, regime-threatening instability, increased nationalism, Caribbean refuge flows", and certainly, I'm very much concerned about protectionist policies, Asian refugees, instability and other things.

And I believe we have to get the toxic debt out of the credit markets to solve that, but when it comes to the focus of the intelligence community, we've got threats from terrorism, the wars in Afghanistan and Iraq, the threat posed by Iran's pursuit of nuclear capability, and the Middle East crisis.

Now, I hope you don't mean by that that the primary focus of the intelligence community is going to be on finding out what you recently described as readily observable and open-source information on the conditions of the country.

The primary emphasis of the IC, I would think—from the great bulk of questions and answers here—has got to be on these current threats that we face, does it not?

Director BLAIR. Mr. Vice Chairman, I was not making a statement about what we would turn our collection capabilities—which are designed for various purposes—to. My intent in drawing attention to the economic crisis was more to inform policy of the things that could really cause real problems for the United States if they developed a certain way. But I won't be turning satellites to look at GDP accounts.

Vice Chairman BOND. Well, I think a number of people had a concern about that, because what the intelligence community—and we discussed the long-term concerns about getting adequate energy intelligence, something that I think the IC is uniquely capable of doing, which is not available in open source. But I wanted to make sure the emphasis was going to continue to be on these threats that I think most of us have described.

Director BLAIR. Yes, sir. And I was trying to act as your intelligence officer for the Senate, not necessarily in the Intelligence Committee, but as members of the body that has to make big decisions for American policy in the future. And I just think that what the Senate ought to be worrying about is the economic crisis.

Vice Chairman BOND. That's something we need to get right and I'll have some comments on TARP later.

Director BLAIR. Yes, sir.

Vice Chairman BOND. You've mentioned the problem dealing with cyber attacks from major state actors. And I think the Chair has rightly pointed out that this needs to be a higher-level executive, diplomatic exchange.

How are we able—or are we able—to prosecute suspected espionage cases or attacks? Do we have any ability to go after those who perpetrate cyber invasions either for the purpose of acquiring information or for the purpose of degrading or destroying our system? Do we have any means of going after those?

Director BLAIR. This is such a new area that I'd really like to have most of the discussion in closed session. There are some things we can talk about—

Vice Chairman BOND. All right.

Director BLAIR. About how you—there have been things in this country—finding a hacker, being able to zero in on a person and determine who it is. When you get into more sophisticated attacks that are across continents and through firewalls and so on, you get into some pretty fancy—

Vice Chairman BOND. It's very difficult, in other words.

Director BLAIR. Technically and legally and I'd rather discuss those with you in a closed session, if I could, Mr. Vice Chairman.

Vice Chairman BOND. One of the questions about China, we all know that it reportedly spent \$59 billion in 2008 on its military forces—a significant increase.

What impact, if any, does this have on our strategic relationship with Taiwan? And do you see a long-term threat to the United States from this increased budget by China?

Director BLAIR. As China does increase its military expenditure, it does pose a greater threat to Taiwan, Mr. Vice Chairman. And unless Taiwan does something about it—and we're really the only other country helping them do it—that means we're going to have to help them some more in order to maintain a balance so that China's military might won't turn into coercive capability or military capability. So it does have an effect.

As far as an effect on the United States, it really depends on how China uses that military power. Right now they've sent a couple of ships to participate in piracy patrols off Somalia. That's a good thing. More is better of that kind of thing.

If they turn extended naval power into trying to coerce other small countries in that area of the world, that's a bad thing and we would take an entirely different thing to it. So it kind of depends.

Vice Chairman BOND. Let me jump just very quickly to another areas. Recent reports describe several Yemeni Gitmo detainees who have been released from Saudi rehabilitation who returned to terrorism. What is your assessment of threat to U.S. interests from al-Qa'ida and affiliated groups in Yemen? And what is the recidivism rate for released Gitmo detainees?

Director BLAIR. I'm hesitating because I can't remember what the classification level is.

There is a recidivism rate of the entire Saudi program. There is a somewhat higher recidivism rate of those from Guantanamo who've been brought back. And the Saudis are increasing their efforts, because they see the same problem that we do. I can give you the number in closed session, but it is not a 100 percent foolproof program, although we give high marks to the Saudis in general for the efforts they are making in reeducation and in taking—not only punitive, but also these rehabilitation efforts. It's making a difference.

Vice Chairman BOND. Thank you, Mr. Director.

Chairman FEINSTEIN. Thank you, Mr. Vice Chairman.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Madam Chairman.

I'm going to ask you a very different kind of question, but one which I think has enormous consequences both in this country and across the world—or you may disagree.

At last year's global threats hearing, I asked General Hayden a question about the Army Field Manual standards for interrogation. And in the course of the discussion that followed, he revealed publicly that we've waterboarded three al-Qa'ida terrorists.

For too many people in our government, and in my judgment in our country, there's a mistaken impression that waterboarding is what has to be done to get actionable intelligence to keep America

safe. It's not. It's torture. And the great majority of the interrogation community believes that's not the best way to get actionable intelligence in the first place.

It's already done great damage to our national security, both as a poor interrogation tool and as a boon to terrorist recruitment worldwide. So I want to ask you about the threat that this misunderstanding poses to our national security.

Two years ago, Brigadier General Patrick Finnegan, the dean of West Point, took several military and FBI interrogators to try to convince the producers of this TV show "24" not to glorify torture, because it was having a toxic effect on cadets' training and ethics.

So my questions are as follows: How does this misunderstanding about torture affect our most valuable national security resources—the young men and women who volunteer to service in the military or the intelligence agencies? Do they believe that Jack Bauer is what a good intelligence agent is supposed to act like?

I'll ask a few more: The Hollywood producer of "24," one Joel Surnow, is celebrated in some circles—most circles—for the show's depiction of the tough choices that have to be made in the war on terrorism. Justice Scalia has cited Jack Bauer's torture of terrorist suspects, and our former Secretary of Homeland Security, Michael Chertoff, said of the show, "Frankly, it reflects real life." In your decades of service to our nation's security, would you say that this TV show reflects real life?

Director BLAIR. I've never seen an episode of that show, Senator, so I can't help you.

Senator ROCKEFELLER. That's a copout. That's a copout.

Director BLAIR. It happens to be true.

Senator ROCKEFELLER. I understand that.

Director BLAIR. But on the general point, no. We don't want to—I mean, I can tell you my leadership and the leadership that I admire in the armed forces and the intelligence services does not believe that you have to be tough and mean to do a good job for your country. You have to be following the traditions of your service. You have to follow America's ideals while you're getting the job done. You have to act lawfully. Those are the leaders that most of us admire, and that's my experience of what most of the leaders are. We don't glorify torture and killing, and there won't be torture on my watch.

Senator ROCKEFELLER. And I understand that. But on their watch, they have it regularly, and it's the most popular TV show in America.

I simply raise that as a question of how what's going on can be used for money-making purposes, and in the process not only affect young people in our country and how they approach, potentially, public service in the intelligence community or elsewhere, as well as the Muslim world. It worries me greatly. It's one television show, and it worries me greatly.

Director BLAIR. American popular culture is sometimes our worst enemy overseas, isn't it, Senator Rockefeller?

I have traveled, and everybody thinks that America is about some of these shows that are made as violent and as lurid as they can be so that they will up their ratings. I don't think that reflects the real America. I don't think that's who we are. I don't think

that's who we want to be, and I think it's a bad reflection of what this country is really about.

Senator ROCKEFELLER. I'll send you a copy.

Director BLAIR. All right.

Senator ROCKEFELLER. Thank you, sir.

Vice Chairman BOND. [Presiding] Thank you, Senator Rockefeller.

Senator Whitehouse.

Senator WHITEHOUSE. Thank you, Vice Chairman.

There have been a great number of questions this afternoon about our cyber security problems.

Director BLAIR. Good. Good.

Senator WHITEHOUSE. Those have been pursued—there have been some very deeply classified elements to the way in which we have begun to address the cyber security problem. It also raises issues about privacy. It raises issues about civil liberties. It raises issues about domestic wiretapping and so forth.

And it strikes me that in order to address those issues and enjoy public confidence that those issues have been adequately addressed, then very significant aspects of the way in which we address cyber terrorism have to be brought out from behind the dark screen of classification. We have to have some public debate and discussion over these issues. We have to open up the scope of people who are given access to some of the classified functions.

And I'm wondering if you have given any thought to how one might go about doing that. It's almost unfair to ask you, if you've been in office all of two weeks, but it strikes me that this is an issue that it's worth starting to grapple with, particularly if, as the current plan proceeds, it passes decision points that should be informed by that kind of a discussion.

Director BLAIR. I've given thought to that, Senator Whitehouse, and in fact those exact concerns are central in this review we're conducting. I'm not sure that the technical answers for privacy will be much different from what we know now. But if we are to be able to apply these technical answers in this complex, interrelated infospace that is the reality of modern communications, the American people have to have confidence that they are being applied in a way that respects privacy and civil liberties.

I think just a couple of points that will be an advantage. Number one, since all these things have to be done at cyber speed—blocking attacks, cleansing places—the algorithms to do that have to be written ahead of time and be in place. So in the writing of the algorithms, you can take into account the sorts of concerns that we're talking about and they can be reviewed by civil liberties experts; they can be shown to Congress.

They can be talked about, I think, in concept if not in particular so that people know that these are being set up in the right way. Then oversight is key—the monitoring of these so that you all and everyone else has confidence that if somehow some of these procedures break down or go wrong, there are ways to deal with it, they're fixed, and they're done in a way.

So I think that we have to build these sorts of considerations into the structure of the equipment, and I think we can talk about that in a procedural and unclass way as long as we don't get into the

code which detects a particular piece of malware so that somebody can design one that's better.

So I think it's a challenge to us, especially because we're spies. You know, people don't trust us in general, so we have a further distance to go if the expertise that's developed for espionage that is used for these purposes. So we recognize that burden, and I think it's incumbent on us to do it that way.

Senator WHITEHOUSE. Well, given the brevity of your tenure and the complexity of the situation, I certainly do not begrudge you the 60 days. I'm delighted to hear that this is a part of that analysis that's taking place in that 60 days, and I look forward to being in touch with you again at the conclusion of your process. I appreciate it very much. Thank you, sir.

Director BLAIR. Yes, sir.

Vice Chairman BOND. Further questions from you, Senator Whitehouse, or Senator Rockefeller? [No response.]

Vice Chairman BOND. I was just going to ask one last question. At last year's threat hearing, Director Hayden was asked about restricting governmental interrogations to those outlined in the Army Field Manual. He responded there is a universe of lawful interrogations that we have a right to use, and the Army Field Manual listing is only a subset but do not consist of all lawful interrogation tools. Have you had the opportunity to review that question and determine whether there is an area to use techniques beyond the Army Field Manual and whether that might be necessary for high value detainees?

Director BLAIR. We are, Senator Bond—and I remember you and I had this conversation in the confirmation hearing and all—and the task forces which have been set up by the executive orders that we discussed are now in existence. And we are not only looking at that exact universe of interrogation techniques. we are trying to bring in some more science and research in that area so we can determine what is the best and most effective way to get the information that we need.

So we are looking at it with a pretty open aperture, but the principles that we discussed of having a single manual, but not one which is a training manual for our adversaries, are very much in our mind also. So we're started down that road, and everything you and I discussed is still in play.

Vice Chairman BOND. Well, we'll look forward to hearing your conclusions, Mr. Director.

I'm sure I could ask you a lot more questions, but I appreciate your participation in the hearing, and I think it's about that time.

On behalf of the Chair, this hearing is adjourned. Thank you.

[Whereupon, at 4:35 p.m., the Committee adjourned.]

UNCLASSIFIED

OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE
WASHINGTON, DC 20511

24 April 2009

The Honorable Dianne Feinstein
Chairman
Select Committee on Intelligence
United States Senate
Washington, DC 20510

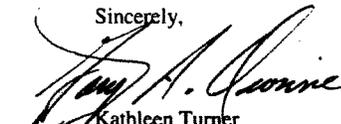
The Honorable Christopher S. Bond
Vice Chairman
Select Committee on Intelligence
United States Senate
Washington, DC 20510

Dear Madame Chairman and Vice Chairman Bond:

The enclosures to this letter provide responses to questions asked following the Committee's 12 February 2009 hearing on the Current and Projected National Security Threats to the United States.

If you have any questions on this matter, please contact me on (703) 275-2473.

Sincerely,



Kathleen Turner
Director of Legislative Affairs

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 1**

Question 1: (U) In the July 2007 National Intelligence Estimate (NIE), the Intelligence Community assessed that the “US Homeland will face a persistent and evolving threat over the next three years” and that al-Qa’ida “has protected or regenerated key elements of its Homeland attack capability, including: a safehaven..., operational lieutenants, and its top leadership.” Are there al-Qa’ida or al-Qa’ida-affiliated cells in the United States? What does the Intelligence Community know about them? What is the FBI doing to track them? Is al-Qa’ida still able to find effective replacements for senior operational planners who have either died on the battlefield or been captured? What information do you have regarding al-Qa’ida’s efforts to acquire chemical, biological, radiological, and nuclear materials (CBRN)? What is the Intelligence Community’s assessment of the threats the US is likely to face from al-Qa’ida twenty years from now?

Answer: (U) Approaching eight years after 9/11, al-Qa’ida remains intent on attacking the U.S., and has shown interest in recruiting and training Western individuals to execute attacks. The Intelligence Community continues to look for indications of al-Qa’ida having contacts and/or sleeper cells in the U.S. The FBI continues to investigate individuals with ties to militants in Pakistan’s Federally Administered Tribal Areas (FATA), a region that al-Qa’ida, the Taliban, and other militant groups have been able to exploit as a safehaven and use as a training ground for internal and external operations programs.

(U) In years past, al-Qa’ida’s adaptable decision-making process, bench of skilled operatives, and operational redundancies have enabled the group to maintain planning efforts, and quickly identify and appoint effective replacements in the event of the death or capture of key individuals. Since the beginning of 2008, al-Qa’ida has weathered the deaths of a variety of highly experienced and long-time operatives, forcing the organization to draw upon younger, less experienced individuals to fill some critical positions. These individuals are probably more untested in the formulation, planning, and execution of attacks and their future effectiveness in these new positions is unclear.

(U) We judge a conventional explosive is the most probable al-Qa’ida attack scenario because the group is proficient with conventional small arms and improvised explosive devices, and is innovative in creating capabilities and overcoming security obstacles. We continue to receive intelligence indicating that al-Qa’ida and other terrorist groups are attempting to acquire chemical, biological, radiological, and nuclear (CBRN) weapons and materials. We assess al-Qa’ida will continue to try to acquire and employ CBRN material, and that some chemical and radiological materials and crude weapons designs are easily accessible. Al-Qa’ida is the terrorist group that historically has sought the broadest range of CBRN attack capabilities, and we assess that it would use any CBRN capability it acquires in an anti-U.S. attack, preferably against the Homeland. We assess that the death of al-Qa’ida’s leading CBRN expert, Abu Khabab al-

UNCLASSIFIED

UNCLASSIFIED

Masri, last July will cause temporary setback to the group's efforts, but its ability to shift responsibility to other senior leaders and existing trained replacements will enable it to recover.

(U) We assess that al-Qa'ida and its regional affiliates will continue to plot against the U.S. and its interests abroad over the next twenty years. Sustained pressure against al-Qa'ida central in the FATA, however, will diminish the group's safehaven and thereby its ability to plan external operations, coordinate with and offer training to regional affiliates, raise funds, and other core operational elements.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 2**

Question 2: (U) Saudi officials announced in late January that nine graduates of the Saudi rehabilitation program for former jihadists, including some who had been imprisoned at Guantanamo, have been arrested for rejoining terrorist groups since the program started in 2004. Recent news articles also discussed a former Guantanamo detainee who was repatriated to Saudi Arabia in 2007 and passed through a Saudi rehabilitation program for former jihadists before resurfacing as the leader of al-Qaida in Yemen, reportedly responsible for last year's terrorist attack on the US Embassy in Sana'a. How effective is the Saudi terrorist rehabilitation program? What are its strengths and weaknesses? What is your assessment of the reason for the increase in unsuccessful rehabilitation?

Answer: (U) Saudi Arabia's terrorist rehabilitation program is the most comprehensive of its kind and is designed to address the religious, psychological, and socio-economic issues that contribute to radicalization. Managed by the Ministry of Interior, the program provides a combination of religious instruction and dialogue, psychological counseling, and social support delivered in five general phases: counseling and initial assessment, a six-week rehabilitation course, evaluation and release, an after-care program, and monitoring.

- a. (U) The rehabilitation course covers various religious topics, including takfir, loyalty, allegiance, terrorism, legal rules for jihad, and psychological instruction on self-esteem. The course does not address anti-Western/anti-U.S. views, focusing only on the difference between Wahhabism, Saudi Arabia's conservative branch of Islam, and takfirism, the violent ideology espoused by al-Qa'ida.
- b. (U) Release is contingent upon successfully completing the program and demonstrating to the Advisory Committee's doctors and psychologists that rehabilitation is genuine.
- c. (U) The Saudi Government conducts its after-care program at a residential facility separate from the prisons. The purpose of this program is to assist detainees with reintegration into society. The environment is more permissive, allowing detainees access to recreational activities and art therapy. Former Guantanamo Bay detainees are housed separately from domestic security offenders and Iraq returnees.
- d. (U) Detainees are told they will be monitored overtly and covertly and are advised on proper behavior once released and ways to avoid future conflicts with security officials.
- e. (U) Released detainees are required to meet periodically with authorities; family members are asked to monitor the released detainee and told that they will be held responsible for the detainee's actions.
- f. (U) The program employs various types of social support to prevent recidivism, including assisting participants in locating a job or finding a wife; paying for weddings and dowries; funding stipends; providing transportation, housing, and medical care; and providing financial assistance to detainees' families.

UNCLASSIFIED

UNCLASSIFIED

(U) The Saudis have reported that the program is most effective with individuals who have little religious background. The Saudis assert that the majority of the detainees who participated in the program did not have a proper religious education. The individuals released through the rehabilitation program have been mostly minor offenders, such as support personnel and sympathizers, many of whom may have been looking for a way out of their life situation. The success of the program is bolstered by the fact that many of the more hardened terrorists do not undergo rehabilitation.

(U) Among the program's strengths are its inclusion of society and traditional societal mores in its structure; its efforts to involve detainees' families rather than just the individual; and its use of teams of religious scholars, mental health professionals, and law enforcement individuals. The program has helped build public support for the aggressive posture of the Saudi security forces, which continue to make frequent arrests. The program also may have improved Mabahith's domestic image by demonstrating its effort to treat program participants as victims of extremist indoctrination rather than hard core terrorists. Finally, the Saudis have demonstrated they are committed to identifying problems in the rehabilitation program and are seeking ways to address them when found.

(U) One element lacking in the program is a method for measuring success. Further, the Saudis engage in a number of activities that cater to the detainees, some of which may undermine the Kingdom's efforts in the long run. For example, the Saudi Government intentionally loses court cases mounted by detainees who believe they had been held too long by the Ministry to demonstrate redress for detainee grievances. Such efforts taken to manage public perception may hurt Saudi Arabia over time if it begins to appear that extremists are given greater support and benefits than average Saudi citizens who have not committed offenses.

(U) An Intelligence Community assessment on the increase in unsuccessful rehabilitation cannot be offered at the unclassified level.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 3**

Question 3: (U) Saudi Arabia has been said to be a partner in the war against al-Qa'ida, but perhaps not a full partner. Saudi authorities have achieved successes against al-Qa'ida, but Saudi citizens also remain a source of recruits and funding for terrorist groups. To what extent are Saudi nationals and organizations based in Saudi Arabia providing material or financial support to international terrorist organizations? To what extent are private donors in Saudi Arabia a source of funding for terrorist groups? Which groups? Has the Saudi government been effective at stopping this funding? To what extent are Saudi nationals and organizations supporting armed Sunni groups in Iraq? How do you assess current Saudi efforts to curtail the flow of fighters and money to combatants in Iraq, Afghanistan, and terrorist groups elsewhere?

Answer: (U) Al-Qa'ida and other terrorist organizations continue to seek and obtain funding from private Saudi donors, but Riyadh's aggressive efforts to identify and disrupt financial facilitators---particularly those associated with al-Qa'ida---probably have impeded these efforts. The Saudi Ministry of Interior has launched a counter-radicalization program aimed at potential recruits and former fighters that includes a media campaign against extremist messages and a network of rehabilitation centers with clinical and social programs to reintegrate former militants into society. U.S.-Saudi counterterrorism (CT) efforts at times have disrupted the Saudi-based networks supporting al-Qa'ida in Iraq and South Asia, however, these networks are resilient despite aggressive Saudi arrests.

(U) Most Sunni terrorist groups probably view private donors in the Kingdom as a critical part of their support base. The Saudi Government has arrested numerous al-Qa'ida financial facilitators and publicized the problem of terrorist finance in an attempt to convince potential donors that funding terrorism is un-Islamic and to dissuade them from giving funds that could benefit terrorist organizations. Saudi Arabia aggressively targets al-Qa'ida-associated financial facilitators, but has historically taken little action against supporters of other groups that play into Riyadh's domestic and foreign policy calculations, and do not pose a direct threat to the Kingdom.

(U) Press reporting that Saudi Arabia tolerates---and in some cases sanctions---such fundraising probably indicates Saudi Arabia may tolerate private fundraising for HAMAS, which it views as a legitimate resistance group and political party.

(U) Sunni extremist groups in Iraq probably receive some support from charitable organizations and individuals in Saudi Arabia and the Gulf states, but they generate most of their support from inside Iraq. The extent to which funding and support flows through or from Saudi Arabia into Iraq is difficult to gauge due to the country's cash-based society and because donations to charity are often anonymous.

UNCLASSIFIED

UNCLASSIFIED

(U) The Saudis recognize the need to stem the flow of fighters out of Saudi Arabia as well as the threat these fighters will pose if they return to the Kingdom. To this end, Saudi Arabia in early-February 2009 publicly issued a list of 85 "Most Wanted Terrorists," which largely consists of Saudi extremists located outside of the Kingdom, many in Yemen. In addition, Saudi media outlets tout high-profile arrests and surrenders of extremists, and Government officials work closely with the families of known fugitives to facilitate their capture or surrender. Moreover, the Saudi Ministry of Interior has launched a counter-radicalization program aimed at potential recruits and former fighters that includes a media campaign against extremist messages and a network of rehabilitation centers with clinical and social programs to reintegrate former militants into society.

(U) Over the past year, Riyadh has laid the groundwork for future prosecutions of major terrorist financiers, and has incorporated some terrorism finance themes into its public counter-radicalization campaign, which may deter future terrorism donors. It has also made some progress on regulatory measures related to terror finance.

- a. (U) Saudi officials in 2008 were preparing to prosecute nearly 1,000 terrorism suspects ---including an undisclosed number of terrorism financiers---detained since 2003, according to media reports.
- b. (U) The Saudis actively participate in the Financial Action Task Force (FATF) and have worked to prevent money laundering and terrorist financing. The Saudi Arabian Monetary Agency (SAMA), the Central Bank, published a circular in 1995 with guidelines on Anti-Money Laundering (AML) and Terrorist Financing (TF) and then updated it in 2003 making their banking control law more compliant with the FATF 40 recommendations and the nine special recommendations on terrorist financing. The U.S. Financial Crimes Enforcement Network (FINCEN) will support the Saudi Arabian Financial Investigation Unit's membership in the Egmont Group, based on a January on-site assessment.
- c. (U) The Saudi Government since 2002 has undertaken limited regulatory and enforcement efforts to address illicit charitable flows abroad. Similarly, the Saudi Arabia Directorate for Customs (SADC) in 2007 began enforcing new cash courier regulations—originally drafted in 2005—to curb illegitimate cross-border cash flows, particularly during the *hajj*. We lack reporting on the effectiveness of these measures.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 4**

Question 4: (U) Recent reports have described the operational activities of Al Qaeda in East Africa, Al Qaeda in the Lands of the Islamic Maghreb, Al Qaeda in the Land of the Two Niles and the recently designated Al Shebaab. What parts of Africa would you describe as terrorist safehavens and why? What are the conditions that are most conducive to Al Qaeda's operating and recruiting there?

Answer: (U) Al-Qa'ida in the Lands of the Islamic Maghreb (AQIM) uses remote regions of Algeria and northern Mali as a terrorist safehaven to train Islamic militants in small arms, use of explosives and insurgent tactics and to stage attacks. Training appears to take place on the move or in makeshift facilities in remote areas outside government control. Northern Mali is not only physically remote, but also unstable due to the armed conflict between the Malian military and Tuareg rebels, and the Malian Government's status as one of the poorest countries in the world hampers its ability to prevent AQIM from obtaining refuge there. AQIM taps into already extant robust smuggling networks in the region to obtain weapons, explosives and supplies to support its operations against Western and local interests in the region. AQIM also uses its safehaven to hold Western hostages for ransom.

(U) South and Central Somalia provides a safehaven for a limited number of al-Qa'ida operatives and more numerous al-Qa'ida-affiliated al-Shabaab militants in East Africa who pose a serious threat to U.S. and allied interests in the region. Al-Qa'ida tries to make common cause with other Somali extremists factions as well in order to expand its area of operations. Somalia's long, unguarded coastline, porous borders, continued political instability, and proximity to the Arabian Peninsula provide opportunities for terrorist transit and the establishment of training camps. The departure of Ethiopian troops and limited capabilities of the Somali Transitional Federal Government, particularly its security service, is allowing al-Shabaab to expand its hold on territory throughout the country.

(U) Sudan-based self-proclaimed al-Qa'ida in the Lands of the Two Niles has no known safehaven.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 5**

Question 5: (U) Your statement for the record noted that in 2008, the security situation deteriorated in Afghanistan. How large is the Taliban insurgency? How does this compare to previous years? What is al-Qa'ida's role in the insurgency in Afghanistan? Does al-Qa'ida control any insurgent forces there? What circumstances would need to change to progress to the point where the government of Afghanistan would be able to defend itself and provide security and services without significant foreign assistance? What does the Taliban insurgency need to sustain its campaign against the Government of Afghanistan and Coalition forces? What would it need to threaten the security of Kabul? What would need to hold power should it succeed to control major portions of the country? Could the Taliban insurgency be having the successes it has achieved in the last year if it did not have safe haven in Pakistani sovereign territory? What is Iran's role in Afghanistan? Have Iran's activities changed in the last year? What would be the consequences of NATO withdrawal from Afghanistan? Is NATO able to sustain its deployments to Afghanistan?

Answer: (U) According to press, in early 2009 U.S. military officials estimated there may be up to 20,000 Taliban fighters in the Afghan insurgency. The insurgency is not monolithic, and this estimate does not account for the other insurgent groups operating in Afghanistan, to include the Haqqani Network and Hezb-e-Islami Gulbuddin. Calculating Taliban manpower is inherently difficult. Although the insurgency has steadily grown since the Taliban's ouster in late-2001, the blurred identities of the numerous groups contributing to instability in Afghanistan, along with the wide variety of factors motivating new recruits, complicate efforts to formulate a precise estimate of the size of the insurgency. Many fighters are part-time insurgents who have other occupations and are less ideologically or politically committed than full-time members of the insurgency, making any estimation of strength difficult and transitory.

(U) Beyond full-time and ideologically committed senior leaders and their subordinate commanders, identifying who is and is not an "insurgent" becomes challenging, especially in a tribal society where local groups and power brokers constantly compete against one another as well as the government. In the Afghan context, Pashtun village and tribal elders, tribal khans, and mujahideen-era commanders are continually aligning and realigning against the government to advance their parochial interests. In many instances, aligning with an insurgent network is not necessarily an endorsement of insurgent objectives but a tactical decision to achieve any number of short-term ends, including exerting pressure on the provincial administration, tapping other sources of illicit revenue, and retaliating for perceived slights.

(U) Al-Qaida augments the Afghanistan insurgency by providing tactical, operational and ideological support as well as some fighters for attacks. Al-Qaida's relationship with these fighters and their level of assistance varies by insurgent group. Both bin Ladin and al-Zawahiri have publicly asserted Taliban Supreme Leader Mullah Mohammad Omar's authority in the Afghan jihad. While al-Qaida has global objectives, in Afghanistan it works to support like-minded insurgent groups to include the Taliban, Hezb-e-Islami Gulbuddin (HIG), and the

UNCLASSIFIED

UNCLASSIFIED

Haqqani Network (HQN). Al-Qaida is divided into different groups responsible for all operational activities in their areas in Afghanistan and Pakistan. Al-Qaida works closely with locals in these areas like HQN leader Siraj Haqqani in North Waziristan and Pakistani militant Baitullah Meshud in South Waziristan. In Afghanistan, al-Qaida likely works with HIG elements in traditionally HIG-dominated areas like Konar, Nuristan and Kapisa. In southern Afghanistan, al-Qaida taps into its relationship with Taliban commanders.

(U) At a minimum, significant progress in Afghan National Security Forces, the judicial system, national and local governance, the economic sector, and improved regional relations remain necessary before Afghanistan is capable of providing security and basic services without significant foreign assistance.

- a. (U) Although both the Afghan National Army (ANA) and Afghan National Police (ANP) have made significant progress, both remain heavily dependent on Coalition support and international funding. Recruitment, retention, and equipment shortages negatively affect efforts to sustain growth. The ANA is becoming increasingly proficient planning and coordinating complex operations; and the ANA remains one of the highest regarded central government institutions. The ANA must continue its trajectory of growth and development, in particular building on its capability to plan and lead combat operations. The ANA's success will also require the Afghan National Air Corps to improve its ability to provide close air support and medical evacuations, which are not considered organic functions in the ANA.
- b. (U) A continued emphasis on developing the ANP is necessary, as recruitment, retention, and equipment shortages have negatively affected professionalism and capacity. While the Afghan Ministry of Interior has launched reform initiatives for the police forces, significant professional development is required before widespread corruption is reduced and the ANP gains the trust and respect of the populace.
- c. (U) Afghanistan's judicial system remains in its initial stages of development, and corruption continues to hinder efforts to deliver unbiased swift justice. Additional international attention to developing Afghanistan's legal system – from building courthouses to training attorneys, will be necessary to enforce rule of law and strengthen Afghanistan's security apparatus.
- d. (U) A renewed focus on bolstering national and local governance, tied to efforts to improve local ANP and judicial structures, will help yield tangible and direct results to the populace, establish confidence in the competence of district and provincial institutions, and undermine insurgent efforts to portray the government as weak and ineffective.
- e. (U) Attracting private sector investment remains critical to creating a self-sufficient economy; however, insecurity, weak rule of law, and rampant corruption continue to hinder international investment. Although economic growth and a more open business environment have improved the general health of the Afghan economy, these benefits have not translated into sufficient employment and income generating activities for the ordinary citizen. Many Afghans still have trouble finding jobs, particularly one that offers a steady income; families remain indebted and vulnerable to economic shocks. Additionally, an improved system to capture trade revenue will assist Afghanistan generate self sufficiency.

UNCLASSIFIED

UNCLASSIFIED

- f. (U) Improved regional ties, particularly with Pakistan and Iran, will enhance Afghanistan's ability to defend itself and provide basic services. Afghanistan presently relies on economic investments, infrastructure and security assistance, and humanitarian aid from its neighbors, but internal security concerns, rampant corruption, and the limited ability to enforce law and order continue to hinder efforts to improve ties. Solutions to Afghanistan's handling of Afghan refugees and allegations of foreign support for the insurgency remain key points of contention in the region, and will likely need to be addressed.

(U) Securing local support, sustaining current funding and recruitment levels, and maintaining freedom of movement, internal and external safehavens are critical insurgent factors to sustain operations against the Afghan government and Coalition forces. The limited ability of the Afghan government to provide good governance contributes to the insurgency goals of discrediting the legitimacy of the government. The Taliban have demonstrated their ability to weather the loss of key individuals and short-term setbacks and the Taliban has sufficient resources to continue an elevated operational tempo in 2009. Rising levels of insurgent violence and the use of high-profile tactics contribute to perceptions of Taliban strength and undermine confidence in the Afghan government's ability to provide adequate security.

(U) Securing a local support base remains essential to the Taliban's success in Afghanistan. Consequently, insurgents employ a number of methods to dominate traditional Taliban operating areas and to expand influence over new territory. The Taliban has had some success generating local support not only through fear, but also by manipulating popular grievances and, in some cases, providing basic but acceptable governance. In addition, the Taliban sides with disenfranchised tribes or marginalized powerbrokers, offering support and power in exchange for assistance.

(U) While it is highly unlikely the insurgency will attempt a large scale assault against Kabul in 2009, continuing efforts on sporadic but high profile attacks in Kabul and increased operations in the surrounding provinces continue to undermine confidence in Kabul and the international community. Although a robust security environment has deterred some insurgent groups from conducting consistent attacks in the nation's capital, suicide and other high profile attacks highlight the Coalition and Afghan government's inability to provide adequate security. These tactics have been effective in limiting some Allied Forces' freedom of movement and reduce the willingness of nongovernmental organizations from operating in outlying areas.

(U) The Taliban will need to maintain local support by balancing competing interests among power brokers and tribes and by providing acceptable governance. If Taliban are in power and succumb to international pressure seek to normalize relations with neighboring countries, it could compromise some of their religious and political ideals. However, ethnic rivalries will likely hinder the Taliban from consolidating control outside of traditional Pashtun areas in the south and east.

(U) While the Pakistani safehaven is important to the insurgency, the loss of this territory would probably not eliminate the Taliban's ability to conduct an insurgency. The Taliban's growing influence in southern and eastern Afghanistan offers insurgents an opportunity to shift many of

UNCLASSIFIED

UNCLASSIFIED

their traditionally Pakistan-based activities to other venues. Relocating these activities will make the Taliban vulnerable to Coalition operations, but over time the Taliban probably can adapt to these new challenges. Thus, while the loss of Pakistan safehavens probably could deal the greatest blow to the Taliban in the short term, its leaders and fighters remain capable of adapting to the environment.

(U) Iran has both long-term strategic and short-term tactical interests in Afghanistan and is not content with merely maintaining the status quo. In the short term, Iran is primarily concerned with preserving its national security and undermining Western influence in Afghanistan, which provides Iran's rationale for providing select Afghan insurgents with lethal aid. In the long term, Iran hopes aid and development projects will facilitate the expansion of trade and extend Iranian influence. Iran seeks to maintain a friendly Afghan government which complies with Tehran's interests. Iran has not altered its activities in Afghanistan over the past year as various Iranian officials describe the Western presence as an occupation and Iran maintains a hostile relationship with the West. Iran's policy calculation in Afghanistan currently emphasizes lethal support to the Taliban, even though revelation of this activity could threaten its future relationship with the Afghan government and its historic allies within Afghanistan.

- a. (U) Iran is covertly supplying arms to Afghan insurgents while publicly posing as supportive of the Afghan government. Shipments typically include small arms, mines, rocket propelled grenades (RPGs), rockets, mortars, and plastic explosives. Taliban commanders have publicly credited Iranian support for their successful operations against Coalition forces.
- b. (U) The Iranian and Afghan governments have signed agreements covering a variety of issues, including political, economic, and cultural cooperation. Iran continues offering assistance in developing Afghan security capabilities through the construction of border security facilities.
- c. (U) Iranian reconstruction assistance has included upgrading roads, building rail capacity, and supplying electricity, particularly in Kabul and the western provinces bordering Iran.
- d. (U) Iran is also working to promote Iranian culture and organize academic and religious exchange programs.
- e. (U) Iran also seeks to expand its influence with the Pashtun community while strengthening connections in its traditional sphere of influence among Afghan Shia.

(U) NATO allies will be able to sustain their current deployments to Afghanistan throughout 2009. Nonetheless, the struggling global economy will become an increasingly important factor affecting allied deployment decisions, as many allies will have to focus more of their attention domestically. Cuts in overall defense spending are likely, but NATO members view the International Security Assistance Force (ISAF) mission in Afghanistan as the alliance's most important mission, and link NATO's creditability to the overall success of ISAF. If the global economy continues to drastically deteriorate or if there is sustained increase in NATO casualties, however, some allies will likely be forced to reduce their force commitments to Afghanistan.

(U) We do not expect a NATO withdrawal in the next several years. Allied leaders at the recent NATO Summit endorsed the results of the U.S. strategy review on Afghanistan and reaffirmed

UNCLASSIFIED

UNCLASSIFIED

their collective commitment to the NATO mission there; several Allies announced modest or temporary increases in troops for the mission. Most Allies will be under increasing strain from the global economic crisis and other military commitments, which could, over time, reduce the number of troops and other resources available for Afghanistan. Some Allies' mandates for current deployments will expire next year, which could lead to public pressure to reduce or curtail unpopular deployments. Allies generally see the strengthening of indigenous Afghan military and police forces as the key to allowing a gradual NATO drawdown of forces there.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 6

Question 6: (U) A most fundamental requirement for counter-insurgency success in Afghanistan is creating and sustaining the Afghan National Army. What would be the size of the Afghan National Army (ANA) that the IC assesses would be required for the Government of Afghanistan to be able to extend security throughout the country, given the current level of insurgency? What would be the economic commitment necessary to train and sustain that number? How much smaller would you assess this force to be, if it weren't for the problem of the open border with an insurgent safe haven in Pakistan? What was required for President Karzai to extend the election date until August? Will the Afghan parliament recognize his authority between May and August? Who are the main contenders expected to challenge President Karzai, and do any of them have a record of successfully advancing economic development and reconstruction in Afghanistan? How much of Afghanistan's current budget is provided by foreign assistance?

Answer: (U) The most recent edition of the U.S. Army Counterinsurgency Handbook suggests a ratio of 25 counterinsurgents to every 1,000 residents within an area of operations. The CIA World Factbook puts the 2009 estimated population of Afghanistan at 32,738,376. Using this ratio leads to a need for roughly 818,000 security personnel to secure Afghanistan. However, most of the insurgents are in Pashtun areas of Afghanistan, and Pashtuns make up approximately 40% of the population - about 13 million. Applying the 25-per-1,000 ratio to the Pashtun population equals roughly 325,000 security forces to extend security through the Pashtun areas.

(U) The Afghan defense operating budget (taken from the Afghanistan National Yearly Budget Report) for the Fiscal Year 2008 was projected at \$242 million dollars. Since there are currently 83,094 soldiers in the Army, we assume that this amount of \$242 million equates to \$2,912 dollars per soldier. If the ANA were to increase the number of soldiers to 325,000, then Afghanistan would need to budget \$946 million dollars per annum to cover at least the operating portion. The operating budget consists of wages and salaries; goods and services; and acquisition of assets.

(U) Fewer security forces would be necessary if the border with Pakistan was closed. However, we do not have robust estimates of the number of insurgents that operate from Pakistan, which is a key variable. One point of historical reference is that prior to the Soviet invasion the Afghan Army alone numbered between 210,000 and 270,000 personnel.

(U) President Karzai likely did not intend to carry through with his threat to hold early elections. Observers noted that President Karzai was in no legal position to extend or refute the Afghanistan's Independent Election Commission's decision, and Karzai very likely knew that spring elections were logistically impossible. Members of the international community viewed President Karzai's initial decree to hold early elections as a political maneuver designed to protect himself against opposition charges that he was disobeying the constitution, and improve

UNCLASSIFIED

UNCLASSIFIED

his bargaining position with opposition politicians – who were not ready for early elections - in the ongoing debate over his interim executive authority.

(U) A majority of Members of Parliament (MPs) in both houses of the Afghan National Assembly have voiced support for the Supreme Court's March 31, 2009 non-binding opinion that Karzai should remain in office until the August 20, 2009 election date. It is unlikely the Lower House will officially back Karzai's interim authority, but neither house is likely to pass a resolution opposing the court's statement. Some opponents of Karzai's interim status may continue vociferous dissent via parliamentary debates and interaction with media outlets; however, U.S. officials are hopeful for a reduced likelihood of organized protests and violence over Karzai's authority over the summer. The issue of contention now is the gap between the August 20 election date and the election results - which are expected to take nearly a month to count. Additionally, if there is a run-off election, the debate over executive authority will be extended.

(U) Nine politicians have confirmed their status as presidential candidates in the August elections, additional figures are expected to run as well. The announced candidates are: Dr. Abdullah, (Former Foreign Minister of Afghanistan, likely front runner for Karzai's main political opposition group), Ramazan Bashedost (Former Planning Minister of Afghanistan and Member of Parliament), Anwari Haq Ahadi (Former Central Bank director and former Finance Minister), Abdul Ali Seraj (Grandson of former Afghan King Habibullah, President of National Coalition for Dialogue for the Tribes of Afghanistan ((NCDTA)), Gul Agha Sherzai (Governor of Nangahar province), Shahla Atta (Female parliamentarian), Mohammad Rasul Nawabi (Dual citizenship, Afghan and Canadian, who's eligibility is pending IEC approval of whether it is constitutionally allowed), Mirwais Yasini (Deputy Speaker of the Lower House), and Ali Ahmad Jalali (Former Interior Minister of Afghanistan). Another potential candidate that has not confirmed his status is Ashraf Ghani (experience at World Bank, UN, Afghan Development Authority, Afghan Ministry of Finance, founded Institute for State Effectiveness).

(U) A few candidates have experience advancing economic development and reconstruction. Nangarhar Governor Gul Agha Sherzai is credited with bolstering reconstruction efforts in his province, but has often done so via informal networks that do not reinforce sustainable institutions. While Sherzai has made measured progress in Nangarhar, he also suffers from a reputation of corruption, patronage, and human rights violations that might not stand up to international scrutiny. As the former Afghan Finance Minister, Anwari Haq Ahadi was responsible for the management and execution of the country's budget, which contributed to economic development and reconstruction efforts throughout the country. Ashraf Ghani has extensive experience from time working at the World Bank, UN, Afghan Development Authority, Afghan Ministry of Finance, and co-founding the Institute for State Effectiveness.

(U) Afghanistan produces two budget reports a year. One is the Core Government Budget (CGB) which is controlled by the Afghan government. The other is the External Budget, which is controlled by foreign donors. Numerous projects in the external budget are directly financed by and controlled by foreign donors. The combined sum of these budgets makes up the overall total budget for the country, which amounts to \$7.6 billion. The CGB makes up \$2.7 billion of which 68% is from foreign aid and only 32% is from domestic revenues.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 7

Question 7: (U) It is clear that the safehaven al-Qa'ida enjoys in Pakistan is providing the organization many of the benefits it had derived from its base in Afghanistan prior to 9/11. What has been the effect of Pakistani military counter-insurgency campaign in the FATA last autumn? Was it conducted as part of a counter-insurgency strategy? What is that strategy? What current counter-insurgency operations are underway? What is the Pakistani public's level of support and the trend line on continuing counter-terrorism and counter-insurgency cooperation with the United States? Have actions by the new Pakistani leadership improved or worsened the threat from the FATA?

Answer: (U) The response to this question will be provided by the Deputy Director of National Intelligence under separate correspondence.

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Witness: Director Blair
Question: 7

Question 7: (U) It is clear that the safehaven al-Qa'ida enjoys in Pakistan is providing the organization many of the benefits it had derived from its base in Afghanistan prior to 9/11. What has been the effect of Pakistani military counter-insurgency campaign in the FATA last autumn? Was it conducted as part of a counter-insurgency strategy? What is that strategy? What current counter-insurgency operations are underway? What is the Pakistani public's level of support and the trend line on continuing counter-terrorism and counter-insurgency cooperation with the United States? Have actions by the new Pakistani leadership improved or worsened the threat from the FATA?

Answer: (U) Al-Qaida and associated groups continue to thrive in the FATA in spite of government counter-insurgency efforts in 2008. Pakistan's leaders seem intent on maintaining support for counterterrorism and counterinsurgency goals, but within the confines of Pakistan's national interests. Pakistan's actions indicate Islamabad continues to prioritize defending against perceived threats from India over the increasing threat emanating from the tribal areas. The spread of militancy into the Northwest Frontier Province (NWFP) and accompanying degradation of government authority will distract Pakistani government and security forces from addressing the terrorist threat in the FATA and contribute to further destabilizing trends.

(U) The government has continued to offer incentives (development) and disincentives (military action) to tribal groups to encourage their cooperation and dissuade them from allowing militants to use their territories for operations in Pakistan or across the border into Afghanistan. Military operations in 2008 were on a larger scale than in previous years but have had the same mixed results—short-term disruptions to militant activities ultimately ending in peace agreements which seem to benefit militants more than government interests.

(U) Pakistan conducted military operations in several areas of the FATA and NWFP in 2008. Many of the actions were in response to specific dangers such as operations to clear militant threats to lines of communication in Khyber Agency; however, the operations conducted in Bajaur and Mohmand Agencies and Swat District were coordinated at a common threat and appeared to have longer term goals. The outcome of these operations was mixed. The military met some of its objectives in Bajaur—clearing the militant threat to lines of communication. In Swat, however, the government compromised with militants through a “peace agreement.” Previous agreements gave militants and al-Qaida an opportunity to regroup, consolidate their resources and concentrate their efforts against U.S. and NATO forces in Afghanistan. The agreements have not persisted in many cases, forcing the resumption of military operations by an Army already tested by limited capabilities, morale problems, and increased commitments throughout the tribal areas.

(U) The Pakistan government's stated strategy is a three-pronged approach that consists of dialogue, development, and security. Pakistan has sought international assistance to implement its strategy. While there have been actions linked to all three components, including U.S. assistance for development and security enhancements, it is not clear if Pakistan has the capacity to do more than respond to immediate threats. Mohmand Agency has been the focus of limited military activity

during the past several months, although the government recently launched an operation against militants in the NWFP district of Buner.

(U) Opinion polls indicate increasing Pakistani concern about extremism, but Pakistanis are ambivalent on how to deal with it. In one poll, most respondents thought the government could be tougher on terrorism, but in another poll from the same time period most respondents did not support use of the Pakistan Army against al-Qaida or the Taliban unless the extremist groups are planning attacks against targets in Pakistan. Most respondents are opposed to cooperation with the United States and were not receptive to U.S. missile strikes. However, they are open to some U.S. aid.

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 8

Question 8: (U) How stable is Pakistan? What is the trend line on security in the Settled Areas, and how does the IC measure this? Who is in charge in Pakistan? How is the bifurcated regime - the national security military establishment v. the fractious civilian government - functioning? Who are the decision makers? Who will determine ongoing cooperation on counter-terrorism? Who will determine ongoing cooperation on counter-insurgency? Last year economists feared that Pakistan would exhaust its financial reserves. Currency fluctuations delayed hitting the bottom at the end of the year, but short-term macroeconomic prospects are not good. What is the IC's assessment of the Pakistani economy? Who is making economic policy in Pakistan? How will the military respond to social upheaval should the coming economic crisis spill to the streets?

Answer: (U) The response to this question will be provided by the Deputy Director of National Intelligence under separate correspondence.

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Witness: Director Blair
Question: 8

Question 8: (U) How stable is Pakistan? What is the trend line on security in the Settled Areas, and how does the IC measure this? Who is in charge in Pakistan? How is the bifurcated regime - the national security military establishment v. the fractious civilian government - functioning? Who are the decision makers? Who will determine ongoing cooperation on counter-terrorism? Who will determine ongoing cooperation on counter-insurgency? Last year economists feared that Pakistan would exhaust its financial reserves. Currency fluctuations delayed hitting the bottom at the end of the year, but short-term macroeconomic prospects are not good. What is the IC's assessment of the Pakistani economy? Who is making economic policy in Pakistan? How will the military respond to social upheaval should the coming economic crisis spill to the streets?

Answer: (U) Pakistan faces numerous challenges that will require intense focus, coordination, and resources to tackle. In addition to a growing extremist threat, the country faces severe economic problems, political infighting and tense relations with India, and to a lesser extent Afghanistan. Militant violence in Pakistan's settled areas continues to grow, and militants have used suicide attacks and kidnappings to intimidate and discourage government action against militants.

(U) The government's policies on counterterrorism and counterinsurgency reflect input from both civilian and military leaders. Islamabad is still working to develop a national security apparatus that brings together all relevant stakeholders in a formalized, transparent process. The government's policies are determined by broader national security considerations and are also influenced by public opinion.

(U) Pakistani economic indicators have improved since the country reached an agreement with the International Monetary Fund (IMF) in November 2008. Foreign exchange reserves have increased and remain stable. Lower commodity prices and increasing remittances from overseas Pakistanis also helped to improve the current economy. These numbers, however, mask Pakistan's dependence on bilateral and multilateral foreign aid. With growth projected to slow dramatically in 2009, Pakistan will remain increasingly dependent on donor nations, many of whom are facing their own financial problems due to the global economy.

(U) Pakistan's economic policy is created and managed by a group which includes President Zardari, Prime Minister Gilani, Advisor to the Prime Minister on Finance Shaukat Tarin, who is the de facto Minister of Finance, and Governor of the State Bank of Pakistan Syed Salim Raza. Pakistan's recent economic policy actions also have been guided by IMF mandates that the government implement fiscal and monetary tightening measures.

(U) The military, primarily the Army, serves as the instrument of last resort in managing unrest and would intervene to help restore order in the event that social upheaval threatened to exceed the ability of local police and security forces to control.

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Witness: Director Blair
Question: 9

Question 9: (U) Your submitted statement for the record said that Iran probably would be technically capable of producing enough HEU for a nuclear weapon sometime in the 2010-2015 time frame and noted that "INR judges that Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems." What did you mean by Iran being "technically capable" of producing HEU? What progress did Iran make in 2008 toward becoming technically capable of producing HEU for a nuclear weapon? Has Iran not already mastered the technology to be able to produce HEU for a nuclear weapon if it chooses to do so? What "technical and programmatic problems" does INR foresee? Has INR changed this judgment in light of recent IAEA reports that Iran has already enriched a sufficient quantity of LEU for a nuclear weapon, should Iran convert the material to HEU? Is the IC preparing a new National Intelligence Estimate on Iran? If so, when do you expect it to be complete?

Answer: (U) When making judgments of when Iran would be "technically capable" of producing enough highly enriched uranium (HEU) for a nuclear weapon, we are estimating Iran's functional ability to perform the enrichment rather than making a judgment about when Iran might make any political decision to produce HEU.

(U) Iran made significant progress in 2007 and 2008 installing and operating centrifuges at its main centrifuge enrichment plant, Natanz. Further information on Iran's centrifuge enrichment capabilities is available at the classified level.

(U) While Iran made significant progress since 2007 in installing and operating centrifuges, INR continues to assess it is unlikely that Iran will have the technical capability to produce HEU before 2013. INR shares the Intelligence Community's (IC's) assessment that Iran probably would use military-run covert facilities, rather than declared nuclear sites, to produce HEU. Outfitting a covert enrichment infrastructure could take years. The IC has no evidence that Iran has yet made the decision to produce highly enriched uranium, and INR assesses that Iran is unlikely to make such a decision for at least as long as international scrutiny and pressure persist.

(U) It is NIC policy not to comment publicly on what topics we may or may not be preparing National Intelligence Estimates (NIEs) on, or on the status of NIEs.

Question 9: (U) During your oral testimony you described "Iran's dogged development of a deliverable nuclear weapon," noted that "Iran is clearly developing all the components of a deliverable nuclear weapons program -- fissionable material, nuclear weaponizing capability and the means to deliver it," and said "if Iran pursued its centrifuge uranium technology, they could have a weapon as early as 2010, but it might take them until 2015." These comments do not seem to be consistent with our understanding of the Intelligence Community's judgments or your submitted statement for the record. Are your views about

UNCLASSIFIED

UNCLASSIFIED

Iran's nuclear program different from those of the Intelligence Community? If not, please clarify whether your oral comments or your written statement represent your views and those of the Intelligence Community. If your oral statements were incorrect, are you planning to issue a public statement to correct the misstatements and ensure that the public understands your assessment and those of the Intelligence Community regarding Iran's nuclear program?

Answer: (U) The views of the Intelligence Community on Iran's nuclear program were accurately conveyed in the formal Statements for the Record submitted to the Committee.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 10

Question 10: (U) Director McConnell testified at last year's threat hearing that Iran remains a threat to regional stability and US interests in the Middle East because of its continued support for violent groups, such as HAMAS and Hizballah, and efforts to undercut pro-Western actors, such as in Lebanon. Do you agree with the intelligence community's assessment from last year? What is the extent of Iran's support for HAMAS and Hizballah? What are Iran's goals in providing this support?

Answer: (U) We judge that Iran remains a threat to regional stability and U.S. interests in the Middle East because of its continued support for violent groups, including HAMAS and Hizballah.

(U) Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel and oppose the Palestinian Authority.

(U) Hizballah is the largest recipient of Iranian financial aid, training, and weaponry, and Iran's senior leadership has cited Hizballah as a model for other militant groups. We assess Tehran has continued to provide Hizballah with significant amounts of funding, training, and weapons since the 2006 conflict with Israel, increasing the group's capabilities to pressure other Lebanese factions and to threaten Israel.

(U) Tehran views its support of these groups—which share Iran's rejectionist stance toward Arab-Israeli peace negotiations—as integral to its efforts to build influence in the Middle East and challenge Israeli and Western interest in the region. Iran also views Hizballah as a formidable military and terrorist ally that could aid Tehran in the event of an Iran-U.S. or Iran-Israel conflict.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 11**

Question 11: (U) The security situation in Iraq appears to show continuing signs of improvement as a result of the success of tribal efforts in combating AQI, expanded coalition operations, and the growing capability of the Iraqi Security Forces (ISF). What is the Intelligence Community's assessment of stability in Iraq and progress toward political reconciliation? What is the Intelligence Community's assessment of the capability of the Iraqi Security Forces (ISF)? Is al-Qa'ida in Iraq (AQI) capable of conducting destabilizing operations and spectacular attacks? Have Syrian internal security operations continued to contribute to the reduction in effectiveness of AQI's Syria-based terrorist facilitation networks? Does the Intelligence Community assess that al-Sadr and his militias retain the capacity to return to violence?

Answer: (U) The positive security trends over the past year have endured and expanded. Iraqis now are less inclined to resolve their differences through unsanctioned violence, and fewer Iraqis are dying at the hands of their countrymen than at any time in the past two years. Improving security conditions in Iraq have given the Prime Minister an opportunity to assert authority in previously denied areas of the country. Meanwhile, the maturation of the Awakening movement, Iraqi Security Forces (ISF) gains, and the subsequent spread of Sons of Iraq groups, in combination with Coalition operations against AQI leaders, have weakened AQI by largely forcing it out of strongholds such as Al Anbar and much of greater Baghdad. The main factors that have contributed to these positive trends include Coalition operations and population security measures; the weakening of insurgent forces, militants, and AQI; and the growing capabilities of the ISF.

(U) We judge, however, that political and security progress could be halted or even reversed by a number of factors, including Arab-Kurd tensions over disputed internal boundaries, perceptions of Iraqi government repression, and increased foreign support to insurgent or militant groups.

(U) Some analysts believe that Iraq is more fragile, the ISF less capable, and the impact of a drawdown potentially more destabilizing than the majority of the Intelligence Community.

(U) The capabilities of the ISF have continued to improve. The ISF's increasing professionalism and improvements in war-fighting skills have allowed it to assume more responsibility for Iraq's internal security, as demonstrated by the successful operations against Shia militants in Al Basrah, Sadr City, and Al Amarah, and against Sunni extremists in Diyala and Mosul. Despite these improvements, the ISF remains dependent on the U.S. for enabling capabilities such as logistics, fire support, and intelligence and will continue to require Coalition assistance during the next three years.

(U) We judge the maturation of the Awakening movement, ISF gains, and the subsequent spread of Sons of Iraq (SOI) groups, in combination with Coalition operations against AQI leaders, have reduced AQI's ability to change dramatically Iraq's security environment through high-profile

UNCLASSIFIED

UNCLASSIFIED

attacks. We judge AQI's unwillingness to adopt a more moderate ideological position coupled with Iraqi Sunnis' rejection of its extreme tactics will make it difficult to regain the ground it has lost, although the group is likely to retain a residual capacity to undertake terrorist operations for years to come.

(U) Over the past year, Damascus has taken action against some Sunni extremists in Syria and has continued to take steps to increase security along its border with Iraq. We assess Syrian counterterrorism actions have contributed to the reduction in foreign fighters entering Iraq, although we judge this reduction has been primarily driven by AQI's declining fortunes inside Iraq.

(U) We assess that most of Muqtada al-Sadr's Jaysh al-Mahdi (JAM) militia probably will continue to transition away from violence because of Sadr-directed policy and organizational changes and ISF pressure, and the JAM is unlikely to reconstitute its former street power. However, some Sadrist-affiliated groups, particularly Sadr's new armed militant wing, referred to as the Promised Day Brigade, and Kata'ib Hizballah, a non-Sadrist Iraqi Shia militant group, probably will continue anti-Coalition attacks and may engage in sporadic violence against Iraqi Government targets. Many Shia who looked upon JAM in early 2008 as defenders against Sunni extremists eventually came to see the JAM as pariahs, leading Sadr to announce last summer that most of his thousands-strong militia would set aside their weapons to become a cultural organization and a counterweight to Western influence while retaining a smaller, better disciplined, armed militant wing.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 12**

Question 12: (U) The new administration has announced the goal of drawing down our forces within 16 months after taking office. Is the Intelligence Community involved in informing the US policy making process for decisions regarding a drawdown? How would a US drawdown affect the political processes and security situation in Iraq? Will Iraq be able to achieve self-sufficient, competent security institutions in time for a US withdrawal? What institutions are still lagging? How long will it take for Iraq to achieve this capability? Please discuss the role of al-Qaida in Iraq. How viable is it, and what effect would a US drawdown have on any possible resurgence? Has al-Qaida in Iraq been primarily involved in the insurgency in Iraq, or has it planned any external operations you can discuss in this forum? Do you believe that the current level of violence will hold, get better, or get worse with a US drawdown? What are the factors behind the drop in violence? Are these factors sustainable? Please discuss the Sunni-Kurdish tensions in the north and the intra-Shia tensions in the South? Is there any prospect for a non-violent solution to these issues? What effect would a US drawdown have on these tensions? Is the Iraqi Government committed to an equitable long-term solution that takes into account the interests of all factions, or are they just waiting for the US to depart before returning to violence? What actions might neighboring countries take as the US draws down forces in Iraq?

Answer: (U) The Intelligence Community provided key findings and analytic assessments on Iraq to a series of policymaker meetings on troop drawdown options leading up to the President's policy announcement.

(U) Resolving disputed boundaries, primarily in northern Iraq, and intra-Shia rivalries in the South probably will remain a significant source of political tension in Iraq in the next several years. Intra-Shia competition for political power and resources as well as longstanding theological and class rivalries are being pursued increasingly through the political process rather than through strife, mainly because the Shia militias recognize that violence has cost them support among the Shia population.

(U) We judge Iran will expand political and economic ties to Baghdad and will continue to supply weapons and training to Shia militants to counter a Sunni resurgence, maintain leverage in Iraq, and keep pressure on U.S. forces. Iraqi nationalism, however, acts as a check on Iran's ability to project power in Iraq. Syria will focus on improving relations with Baghdad and seek increased trade and energy exports but also will continue to support Ba'thists and other non-AQI Sunni oppositionists to try to gain leverage in Iraq. Turkey will continue working to counter the Kurdistan People's Congress, a Kurdish terrorist group based in northern Iraq. Iraq's Sunni Arab neighbors are starting to reestablish an Arab presence in Baghdad, and are likely to gradually continue improving ties to Iraq.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 13

Question 13: (U) The recent Iraqi elections were relatively free of violence. What do the provincial election results tell you about the future direction of Iraq? Did you expect al-Maliki's Dawa party to do so well? To what do you attribute the party's success? What is the Iraqi Government's ability to deliver services to the Iraqi public?

Answer: (U) Provincial elections helped correct previous ethno-sectarian imbalances in provincial councils. Sunni Arab candidates won majorities in the mixed ethno-sectarian governorates of Diyala, Ninawa, and Salah Ad Din, where they previously were underrepresented. Maliki's coalition won or tied for the most seats in the ten Shia-dominated governorates as well as narrow pluralities in four other governorates. The Maliki coalition's emphasis on his counterinsurgency and economic reconstruction campaigns probably appealed to many voters seeking to oust incumbents.

(U) The Iraqi Government will continue to face significant challenges in meeting demand for basic goods and services. Baghdad will confront more difficult choices about spending priorities as a result of declining oil revenues as it simultaneously grapples with security force modernization, infrastructure investment, and expanding public payrolls.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 14**

Question 14: (U) In January, the United States and Israel signed a memorandum of understanding that would, amongst other things, require the US and Israel to enhance "sharing of information and intelligence that would assist in identifying the origin and routing of weapons being supplied to terrorist organizations in Gaza." Does HAMAS still possess the capability to strike Israeli population centers indiscriminately with rockets? How has HAMAS been able to obtain parts for rockets, explosives and other munitions - and how difficult is it to close off the smuggling tunnels between Egypt and Gaza? Please characterize the assistance Iran and/or Syria have provided to HAMAS. Is HAMAS an organization that can be deterred? Has HAMAS gained or lost popularity among the Palestinian population since the conflict?

Answer: (U) We assess that HAMAS still possesses a capability to strike Israel with rockets. HAMAS continued to fire rockets throughout its fighting with Israel earlier this year, and we judge that the group's stockpile of weapons probably was not exhausted or destroyed before the January cease-fire.

(U) HAMAS probably has been able to obtain parts for rockets and other weapons since the ceasefire. These items are smuggled into Gaza via tunnels between Egypt and Gaza. The tunnels were damaged by Israeli air strikes during the Gaza conflict, but many have been repaired and smuggling activity continues. Closing off the tunnels remains a technical and diplomatic challenge. We judge that intense demand in Gaza for goods of all sorts—including weapons—will continue to provide a strong motivation for smuggling activity.

(U) We assess that for the short-term HAMAS will not resume rocket firings at a level that would bring another large-scale Israeli assault against Gaza. HAMAS's popularity has risen in the Palestinian Territories and the Arab world in the wake of Israel's assault earlier this year. A reputable Palestinian polling center in March indicated that HAMAS's popularity stood at 33 percent, up from 28 percent in December, prior to CAST LEAD. Nonetheless, the organization appears concerned that Palestinian perceptions that HAMAS provoked the Israeli attack could significantly weaken the group's popular support in Gaza, a worry supported by polling that reports 71 percent of Palestinians indicating that they believed Palestinians were worse off after the Israeli incursion.

(U) Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel and oppose the Palestinian Authority. Damascus views Palestinian rejectionists as legitimate resistance organizations and provides their leaders safe haven, training facilities, and offices in Syria. Syria views its links to Palestinian rejectionists—particularly HAMAS—as a means to press and deter Israel, and create leverage for achieving its goals of attaining a leading position in the Arab and regaining the Golan Heights.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 15**

Question 15: (U) Hizballah is an extremely effective terrorist organization that likely has a greater capability to conduct terrorist attacks than al-Qaida. However, since the 2006 Israel-Hizballah war, Hizballah largely steered clear of the most recent conflict in Gaza, though several rockets were fired from Lebanon into northern Israel in that time period. Why do you believe Hizballah did not take a more active role while the Israeli Defense Forces were engaged in Gaza? Please characterize the role that Hizballah plays in Lebanese politics. What has been the fallout since last year's violent clashes between Hizballah and the Lebanese government? How would you characterize Hizballah's capability to conduct terrorist attacks against the interests of the United States or our allies? How does this capability compare with that of al Qaida?

Answer: (U) We judge that Hizballah did not take a more active role while the Israeli Defense Forces were engaged in Gaza to avoid the risk of igniting a new conflict with Israel. Such retaliation could have damaged Hizballah's civilian and military infrastructure and endangered the group's political standing in Lebanon in advance of the National Assembly election scheduled for June 7, 2009. Hizballah supports HAMAS's rejectionist stance with respect to Israel, but we judge Hizballah was not inclined to substantially risk its own interests to provide assistance to HAMAS during the crisis.

(U) Lebanon has enjoyed a period of relative calm and reconciliation since the Doha Accord in May 2008 ended Hizballah's armed takeover of Beirut. Hizballah has attempted to reconcile with other Lebanese parties probably in an effort to show the group's commitment to a Lebanese nationalist agenda in advance of the National Assembly election and reduce the damage done to its image by the fighting last May. The Hizballah-initiated violence in May has left all sectarian groups—the Sunnis in particular—concerned about their security. Hizballah continues to bolster its military strength; since the 2006 war, the group has rearmed and trained additional personnel in preparation for possible future conflict with Israel.

(U) Hizballah has evolved into a multifaceted, disciplined organization that combines political, social, paramilitary as well as terrorist elements. The group continues to view Israel as a primary enemy and we judge armed resistance against Israel remains central to Hizballah's ideology and strategy. Hizballah remains the most technically capable terrorist group in the world. We assess Lebanese Hizballah may consider attacking US interests should it perceive a direct US threat to the group's survival, leadership, or infrastructure or to Iran.

(U) Al-Qa'ida has an undiminished intent to attack the US and remains the primary terrorist threat to the U.S. Homeland and interests overseas. Al-Qa'ida consistently aspires to conduct a major attack against the US Homeland, and to focus resources on conducting attacks against U.S. and Allied interests overseas as well as against perceived "apostate regimes." Hizballah, like al-Qa'ida, is also capable of mass-casualty terrorist attacks, such as Hizballah's attack on the Israeli

UNCLASSIFIED

UNCLASSIFIED

Embassy in Argentina in 1992 and the Argentine-Israeli Mutual Association (AMIA) in Buenos Aires in 1994.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Witness: Director Blair

Question: 16

Question 16: (U) Press stories have reported that China has hacked into computers in the US, UK, and Germany. Is the Intelligence Community certain that these attacks are from China? Are they sponsored by the Chinese government? How aggressive is China in collecting against sensitive and protected US systems, facilities, and development projects? What has been the evolution of threats of cyber attacks and computer spying from China? What is the status of the previous administration's cyber initiative?

Answer: (U) Beijing has dramatically expanded its level of effort in computer network operations worldwide for intelligence collection and military use over the past several years, and China's cyber capabilities will pose a growing threat to U.S. information systems over the next five years.

(U) Information warfare has become a pillar of China's military modernization program and war planning. The Chinese see the U.S. military's dependence on information systems as critical to our operations, but also as potentially our greatest vulnerability, and see information warfare as an attractive way to offset the Chinese military's technological disadvantage.

(U) Implementation of the Comprehensive National Cybersecurity Initiative (CNCI), which was established by President Bush in National Security Presidential Directive 54/Homeland Security Presidential Directive 23 in January 2008, continues at this time. President Obama in February 2009 ordered a complete review of U.S. Government cybersecurity programs, including the CNCI, by the National Security Council/Homeland Security Council (NSC/HSC). The NSC/HSC review is to be completed and recommendations reported to the President in mid-April 2009. The CNCI will incorporate any changes recommended by the NSC/HSC review and approved by the President at that time.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Witness: Director Blair****Question: 17**

Question 17: (U) How effective has Russia's manipulation of gas supplies to Ukraine and Eastern Europe been in furthering its foreign policy objectives? Now that the price of oil has declined from record highs, do you believe it can be easier to deal with Russia? Will the West ever be able to rely on Russia to be a dependable partner in addressing challenges like the Iranian nuclear program, counter-proliferation, and counterterrorism? How formidable is Russia's military buildup, and how effective have its military exercises been? How does this capability compare with that of the old Soviet Union? How big a proliferation threat are Russian nuclear, biological, chemical, and fissile material stockpiles? What can be done to address this threat? What effect has the global economic downturn had on Russia?

Answer: (U) Russia's shutoff of gas supplies to Ukraine in January underscored Moscow's ability to use energy to put pressure on Ukraine, but the move probably increased European concerns about dealing with Russia and may have galvanized EU action in response. The recently-announced EU economic stimulus package includes funding for construction of interconnector pipelines and additional gas storage to enhance Europe's ability to weather another cutoff. The shutoff probably factored into the EU's decision in late-March to support Kyiv's efforts to modernize its aging gas supply network. The EU move incensed Moscow, which demands a direct Russian role in anything dealing with Ukraine's gas pipelines. The financial crisis and fall in energy prices, meanwhile, have undercut Russia's ability to move forward on its own pipeline projects to bypass Ukraine.

(U) Senior Russian leaders have stressed that the current financial crisis reveals how closely Russia is linked to the global economy and have recognized Russia's recovery will be dependent on a global recovery. Moscow's economic team is keen to engage the United States both bilaterally and in multilateral forums such as the April G-20 summit. Russia needs Western investment, thus providing a possible incentive for improving its business climate for foreign investors and relations with the West. Russian leaders in recent weeks also have suggested a readiness to improve the bilateral relationship with the US on a range of non-economic issues and continue to work with the United States in areas where interests overlap, such as aspects of counter-proliferation and counterterrorism, though it is unclear if the drop in oil prices is directly related to Moscow's current willingness to engage.

(U) Moscow has indicated, though, that future cooperation will not come at the expense of its own interests – such as commercial investments or its desire for a sphere of influence in the former Soviet space. Moscow's differing interests, priorities, and threat perceptions thus have made bilateral cooperation challenging on some issues. For example, in the case of Iran, while Moscow has voted for three UN Security Council sanctions resolutions since 2006, it has also supported Iran's civilian nuclear power program and sells it advanced arms.

UNCLASSIFIED

UNCLASSIFIED

(U) Moscow has been in the process of restoring some of the military capabilities it lost after the collapse of the Soviet Union as it downsizes and reorganizes its forces. There have been considerable readiness improvements over the past decade, which led directly to the success of Russian forces in both the second Chechnya conflict and in Georgia. Across the full spectrum of warfare—to include nuclear capabilities, military space operations, the ability to conduct large-scale conventional military operations, and the capacity to develop and field advanced weapons—Russia remains among the top military powers in the world, along with China and the United States.

- a. (U) Russia retains the world's second largest strategic nuclear forces and the largest inventory of non-strategic nuclear weapons, with a wide range of delivery systems.
- b. (U) Moscow fields the world's most advanced integrated air defenses.
- c. (U) Russia has the capability to rapidly deploy several heavy brigades and several hundred combat aircraft and helicopters to Eastern Europe, the Caucasus, Central Asia, or its Far East in a matter of several days.

(U) High-profile Russian military exercises have varied in their scope and frequency in recent years. The 'Stabilnost' (Stability) 2008 in autumn last year was the largest exercise in the post-Soviet period, testing a range of Russian conventional and strategic force capabilities, in part contemporaneous with military operations in Georgia. Other high-profile exercises with other countries usually are much smaller in scope and are as much about demonstrating cooperation as improving capabilities. More important than the high-profile exercises have been the significant increases in Russian unit cyclical training this decade, which is a far better indicator of improved readiness.

- a. (U) Out of area Russian Navy deployments to the Mediterranean, North Atlantic, Indian Ocean, and Pacific Ocean are traditional "show the flag" operations intended to support Russian foreign policy and demonstrate Russia's status as a "great power" and probably do not reflect wartime operational planning.
- b. (U) Similarly, the increase in long range flights by Russian long range bombers over the past two years also is intended to demonstrate that "Russia is back" and has a capability that only the United States can match.
- c. (U) In 2003, the Russian military prepared for an exercise that included attacking U.S. satellites to disrupt the NAVSTAR global positioning system, the Keyhole optical-electronic reconnaissance satellites, and the Lacrosse radar reconnaissance system with the intent of "blinding" the Pentagon and denying it the opportunity to use precision weapons against Russia.

(U) Despite its still considerable capabilities, the Russian military is a shadow of its Soviet predecessor. Russian conventional forces are not a direct military threat to Central or Western Europe, and Russian ability to project large forces abroad is very limited. Russian defense industry, while still capable of producing significant quantities of modern weapons, has nowhere near the capacity of the Soviet military industrial complex. Importantly, Russian leaders acknowledge that Russia does not have the resources to rebuild Soviet-style conventional and nuclear capabilities and are now emphasizing the creation of a smaller, more professional,

UNCLASSIFIED

UNCLASSIFIED

mobile, survivable and high-tech military rather than huge Soviet mobilization forces that emphasized mass and overwhelming firepower.

- a. (U) Moscow has been configuring its ground forces to be able to deploy rapidly along its periphery, giving it the capability to militarily dominate the countries along its borders—with the exception of China.
- b. (U) Russian air defenses, space warfare capabilities, nuclear weapons, and logistical advantages conferred by geography make the Russian military a still formidable hypothetical opponent in scenarios where U.S. or other NATO forces would challenge Moscow militarily near its territory or against Russia proper.
- c. (U) Russia has consistently kept its defense spending at less than three percent of GDP, avoiding the huge defense burden that ultimately choked the Soviet economy, but rising GDP during this decade has allowed Moscow to substantially raise defense spending, while force reductions have allowed the Defense Ministry to concentrate resources more effectively to make qualitative gains.

(U) The financial crisis has emerged as the biggest threat to Russia's political resilience and stability and to Russia's great power ambitions since the 1998 financial crisis, but the overall impact will depend on how deep the global recession is and how long it lasts. Thanks to rising commodity prices for much of the past decade, Russia averaged around seven percent growth between 2001 and 2007 and accumulated the world's third largest foreign currency reserves, which totaled nearly \$600 billion by last August. In recent years, however, Russian companies became heavily leveraged, racking up some \$450 billion—about 40 percent of GDP—in debt to Western financial institutions, leaving some in danger of default this year. Russia now faces its first recession in a decade. As retail, construction, and other sectors weaken in the wake of the drop in the energy and commodities sectors, pain is spreading across the economy—and indeed from Russia across Eurasia. The downturn is affecting everyone from the biggest oligarchs to the new middle class to workers in one-factory towns to villages in Tajikistan, where remittances from construction work in Moscow have dried up.

(U) Russia will face increasing challenges in 2010 if the global economic recovery is slow and oil prices do not rise significantly. So far, Russian reserves have provided Moscow a hedge against the current crisis, but by the end of February this year, foreign exchange reserves had fallen by more than one third to around \$380 billion, in large part due to government efforts to cushion the ruble's fall as oil prices began their downward spiral last July. The ruble, during that timeframe, lost some 30 percent of its value but still performed much better than many other currencies such as the Swedish krona and the Ukrainian hryvnya. This year, Russia still will be able to rely on its reserves to fund a budget deficit that is expected to be around 7.4 percent of Russian GDP. Over the longer term, however, Russia's recovery is tied to the recovery of the global economy and the rise of oil prices back up into the \$70 a barrel range, a price that would allow Russia to balance its budget without making deep cuts in social programs, military spending, and other strategic programs.

(U) The growing Russian economy became a key pillar of support for the government and a major driver of Russia's more active and assertive foreign policy in recent years, so the impact of the economic downturn is potentially significant. Challenges the Russian leadership has faced

UNCLASSIFIED

UNCLASSIFIED

over the last decade since Putin first came to power as President—including war in Chechnya and large scale terrorist attacks in Moscow and the North Caucasus—all occurred against the backdrop of a growing economy and rising energy prices. It is unclear how the Russian government would cope with similar crises in an economic downturn and if Russia's emerging middle class will continue to hold the Russian leadership in the same high esteem it did during the years of growth. Signs of growing social unrest include the government's use of force to suppress protests in Vladivostok in December over an increase in automobile import tariffs, migrant worker protests in some locations, and rising ethnic attacks. A prolonged economic downturn will force Russia to prioritize between funding social programs, underwriting national prestige programs such as the 2014 Sochi Olympics, and continuing expensive efforts to reform the military and assert Russian power abroad.

(U) Although various security improvements have been made, we remain concerned Russia's stocks of nuclear, chemical, and biological-related material are vulnerable to insider theft and other security threats. The U.S. has worked with Russia since the early 1990s to improve accountability and storage of nuclear and chemical weapons, fissile material, and biological pathogens.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009

Committee: SSCI

Member: Senator Coburn

Witness: Director Blair

Question: 1

Question 1: (U) Press reports indicate that one of Usama Bin Ladin's sons, who had been under house arrest in Iran, is now free in Pakistan. Are these reports correct and, if so, was he freed by the Iranian authorities or did he escape? What is the intelligence community's assessment of the threat posed by the release of this individual? Have any other al-Qa'ida-affiliated individuals been released from Iran? If so, how many and where are they?

Answer: (U) Sa'ad Bin Ladin probably is no longer in Iranian custody. We do not know whether he escaped or was released. Sa'ad's change in status probably boosted the morale of al-Qa'ida associates and other jihadists, at least immediately following his change in status. The question regarding whether any other al-Qa'ida-affiliated individuals are no longer in Iranian custody cannot be answered with an unclassified response.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Member: Senator Coburn
Witness: Director Blair
Question: 2

Question 2: (U) In early February, a Pakistani court freed A .Q. Khan from house arrest, five years after he acknowledged proliferating banned nuclear technology. What is the Intelligence Community's assessment of the threat posed by A.Q. Khan's release from house arrest? Are you concerned that A.Q. Khan will continue his proliferation activities?

Answer: (U) An Intelligence Community assessment on A.Q. Khan's activities can not be offered at the unclassified level.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Member: Senator Coburn
Witness: Director Blair
Question: 3

Question 3: (U) The new administration has commented that about 60 of the remaining 235 GITMO detainees are believed by the Department of Defense to be suitable for release to either their home country or another country. Has the intelligence community provided an assessment in each of these cases that the detainees are suitable for release? Prior to their release, were any of the 63 GITMO detainees who returned to terrorism after being freed judged by the intelligence community to be unsuitable for release?

Answer: (U) The response to this question will be provided by the Office of General Counsel under separate correspondence.

Question: (U) In January 2009, the US Ambassador to Yemen said that the "majority" of the Yemeni detainees "can be put productively into a . . . reintegration program with the goal over time of enabling them to find a way back into Yemeni society without posing a security risk?" Does the intelligence community assess that the majority of the Yemeni detainees at GITMO can be put into a reintegration program for ultimate release? Does Yemen have a terrorist rehabilitation program? Does the intelligence community believe that Yemen could successfully implement such a program? What is the recidivism rate for released GITMO detainees? How many of the released detainees who returned to terrorism were Yemeni? What is the Yemeni government's ability and willingness to track and detain terrorists in Yemen's tribal areas? A Voice of America story this week said that Yemen is set to release 176 detainees with suspected ties to al-Qa'ida . Is this story true? If so, what is the intelligence community's assessment of the threat these individuals pose?

Answer: (U) The response to this question will be provided by the Office of General Counsel under separate correspondence.

UNCLASSIFIED

UNCLASSIFIED**Hearing Date: 12 February 2009****Committee: SSCI****Member: Senator Coburn****Witness: Director Blair****Question: 4**

Question 4: (U) In the July 2007 National Intelligence Estimate (NIE), the Intelligence Community assessed that the “US Homeland will face a persistent and evolving threat over the next three years” and that al-Qa’ida “has protected or regenerated key elements of its Homeland attack capability, including: a safehaven..., operational lieutenants, and its top leadership.” Has al-Qa’ida’s ability to find effective replacements for killed or captured senior operational planners been degraded in any way in the past year? What role does Usama Bin Laden play in the organization? Why can the Intelligence Community not locate Bin Laden?

Answer: (U) In years past, al-Qa’ida’s adaptable decision-making process, bench of skilled operatives, and operational redundancies have enabled the group to maintain planning efforts and quickly identify and appoint effective replacements in the event of the death or capture of key individuals. Since the beginning of 2008, al-Qa’ida has weathered the deaths of a variety of highly experienced and long-time operatives, forcing the organization to draw upon younger, less experienced individuals to fill some critical positions. These individuals are probably more untested in the formulation, planning, and execution of attacks and their future effectiveness in these new positions is unclear.

(U) Bin Ladin continues to act as the spiritual leader of al-Qa’ida and figurehead of the jihadist movement--using al-Qa’ida’s media wing al-Sahab to issue statements to followers worldwide--and is vital to al-Qa’ida’s ability to remain the self-appointed vanguard of global jihad. Despite likely being isolated from much of the group’s day-to-day activity, he probably offers guidance on overall strategy as much as security precautions allow.

(U) The question regarding Usama Bin Ladin’s whereabouts can not be answered with an unclassified response.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Member: Senator Coburn
Witness: Director Blair
Question: 5

Question 5: (U) Admiral Blair, I understand that you recently appointed former DCI John Deutch to service in a sensitive position on an advisory panel overseeing our most sensitive intelligence overhead architecture? For those who are not aware, in 2001, Mr. Deutch had his security clearances revoked and received a Clinton Administration pardon after seriously mishandling highly classified information. Have you read the damage assessment that outlines the serious damage done by Mr. Deutch's actions? Are you aware that he refused to cooperate with investigators after he was pardoned? How can you possibly think that it is appropriate to appoint him to this panel? What kind of message do you think this sends to the men and women of the CIA who work every day to collect and protect our most sensitive intelligence? Will you reconsider this decision?

Answer: (U) The response to this question will be provided by the Office of General Counsel under separate correspondence.

UNCLASSIFIED

UNCLASSIFIED

Hearing Date: 12 February 2009
Committee: SSCI
Member: Senator Coburn
Witness: Director Blair
Question: 6

Question 6: (U) Director Blair, your submitted statement for the record said that the "primary near-term security concern of the United States is the global economic crisis." The biggest challenges you laid out related to the global economic crisis are 1) increased risk of regime-threatening instability; 2) increased economic nationalism; 3) Caribbean refugee flows; and 4) that allies and friends might not be able to meet their humanitarian obligations. Is it really the collective judgment of the intelligence community that potential challenges such as possible instability and possible refugee flows are a greater "near-term security concern" than the current threat from terrorism, the wars in Afghanistan and Iraq, the threat posed by Iran's pursuit of a nuclear capability, and the Middle East crisis? From which office within the ODNI or from which agency did this judgment originate? Please provide any previously prepared IC assessments which support this assessment.

Answer: (U) While economic security does not fall into the traditional definition or perception of threats, the community agrees that current global economic crisis represents the primary near-term security concern for the United States. In coming to this assessment the community consider a number of factors, including: the immediacy and severity of the crisis, its global reach, the myriad uncertainties related to how the crisis will manifest, not only economically but geopolitically, the concern that leaders worldwide have expressed publicly and privately about the impact in terms of unemployment, social stability, setbacks to growth, and the need for collaborative and coordinated action to address the fallout and limit the damage.

(U) There is a heightened risk of social and political instability worldwide as governments and citizens grapple with rising unemployment, corporate bankruptcies, frozen financial systems, plummeting trade, and a decline in remittances. These factors potentially feed the threat we and our allies face from terrorism and hamper the ability of the United States to tackle our other top national security challenges. For example, when our allies are focused on domestic economic concerns—from recession to rising unemployment, to strikes and riots—they are less able and willing to cooperate with us on other top priority issues, such as counter terrorism or the wars in Iraq and Afghanistan. The collapse of an economy in the developing world may result in a failed state whose territory is "up for sale to the highest bidder."

(U) The cited assessment originated in the National Intelligence Council. The NIC has been monitoring this issue for more than a year; however, the rapidity with which the global economy has deteriorated since last summer has been extraordinary. Eight months ago, the NIC and the IC were concerned about the potential geopolitical fallout from surging fuel and food prices, particularly in fragile states. Today, we are concerned about the economic, financial, and geopolitical impact of a severe global economic downturn and focused especially on countries where a severe downturn might trigger social unrest, anti-foreign sentiments, damaging protectionism, humanitarian crises, and even an inability to meet collective security commitments because of rising financial burdens.

UNCLASSIFIED

UNCLASSIFIED

(U) While no country has shown to be immune from this crisis, countries that are most affected fit into several categories including those whose 1) domestic banking and financial systems are tightly integrated with the global financial systems, especially developed countries' financial institutions 2) economies are highly dependent on export-led growth 3) economies, budgets and revenues are highly dependent on commodity exports and revenues 4) economies, especially low-income economies that are dependent on remittances from workers working outside their home country to provide foreign exchange and the "social safety net" for their poorest citizens. The NIC has produced more than a half dozen classified products specifically focused on the fallout and implications of global economic turbulence.

Question: (U) Does the CIA agree that the global economic crisis is our "primary near-term security concern?" In the past six months, how many finished CIA intelligence assessments have been published on the global economic crisis? How many have been prepared on the global war on terrorism?

Answer: (U) The CIA focuses a majority of its analytic and collection resources on winning the global campaign against terrorism, specifically against those groups and individuals seeking to kill Americans either in the Homeland or abroad. As a result, our primary focus is on the battlefield overseas, where we strive to disrupt and preempt attacks on the United States by taking the fight to our adversaries wherever they may be. We do so by bringing together the Agency's core missions—foreign intelligence collection, analysis, and covert action—into a coordinated package to strike at our enemies. We have found that such a unification of effort, in conjunction with U.S. military forces and Intelligence Community partners, provides us the most effective means to degrade, disrupt, and ultimately defeat the threat.

(U) The Agency, however, is a global intelligence service that is capable of confronting multiple challenges at the same time. As such, we also are focused on the global economic crisis and its impact on U.S. national security, particularly the effect the crisis is having on political stability around the world. Our creation in March 2009 of the daily Economic Intelligence Brief (EIB) is the most visible step we have taken to increase reporting and analysis on this topic. Bringing together functional and regional experts to look at both transnational and country-specific developments, the EIB is designed to inform senior U.S. policymakers about foreign developments as they seek to protect US interests in a rapidly evolving crisis.

(U) A survey of the CIA's World Intelligence Review (WIRE) indicates that the DI disseminated a similar number of analytic products—roughly 270—on both terrorism and on the global economic crisis during the past six months. Many CIA terrorism products, however, contain operational or compartmented information that cannot be hosted on the WIRE—the Agency's classified web presence that the DI uses as its primary means to disseminate analysis through text, graphics, multimedia, and video. The number of DI terrorism-focused assessments nearly triples to close to 800 products if all analytic papers are included in the count for the period between 19 September 2008 and 19 March 2009.

Question: (U) Does the DIA agree that the global economic crisis is our "primary near-term security concern?" In the past six months, how many finished DIA intelligence

UNCLASSIFIED

UNCLASSIFIED

assessments have been published on the global economic crisis? How many have been prepared on the global war on terrorism?

Answer: (U) DIA's primary emphasis is on threats requiring the use or potential use of U.S. military capabilities. Our current priorities are terrorism, ongoing conflicts in Afghanistan and Iraq, and the proliferation of weapons of mass destruction and the means to deliver them. We concur that the global economic crisis has clear and growing security implications. As part of our broader mission, we have resources dedicated to analysis of economic issues underpinning foreign threats and military capabilities, including the threats posed by economic-induced instability. We work closely with financial/economic experts in CIA and Department of Treasury and we leverage their assessments to understand and explain the potential impact on defense issues.

(U) In the past six months, DIA published 30 finished intelligence products on the global economic crisis. During the same period, DIA published 741 finished intelligence products on the global war on terrorism.

UNCLASSIFIED

