

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

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

WEDNESDAY, FEBRUARY 16, 2011

Printed for the use of the Select Committee on Intelligence



Available via the World Wide Web: <http://www.fdsys.gov>

U.S. GOVERNMENT PRINTING OFFICE

71-843 PDF

WASHINGTON : 2012

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*
SAXBY CHAMBLISS, Georgia, *Vice Chairman*

JOHN D. ROCKEFELLER IV, West Virginia	OLYMPIA J. SNOWE, Maine
RON WYDEN, Oregon	RICHARD BURR, North Carolina
BARBARA A. MIKULSKI, Maryland	JAMES E. RISCH, Idaho
BILL NELSON, Florida	DANIEL COATS, Indiana
KENT CONRAD, North Dakota	ROY BLUNT, Missouri
MARK UDALL, Colorado	MARCO RUBIO, Florida
MARK WARNER, Virginia	

HARRY REID, Nevada, *Ex Officio*
MITCH McCONNELL, Kentucky, *Ex Officio*
CARL LEVIN, Michigan, *Ex Officio*
JOHN McCAIN, Arizona, *Ex Officio*

DAVID GRANNIS, *Staff Director*
MARTHA SCOTT POINDEXTER, *Minority Staff Director*
KATHLEEN P. MCGHEE, *Chief Clerk*

CONTENTS

FEBRUARY 16, 2011

OPENING STATEMENTS

Feinstein, Hon. Dianne, Chairman, a U.S. Senator from California	1
Chambliss, Hon. Saxby, Vice Chairman, a U.S. Senator from Georgia	2

WITNESSES

Hon. James R. Clapper, Jr., Director of National Intelligence	4
Hon. Leon Panetta, Director, Central Intelligence Agency	44
Hon. Robert S. Mueller III, Director, Federal Bureau of Investigation	46
Lieutenant General Ronald Burgess, USA, Director, Defense Intelligence Agency	58
Hon. Michael Leiter, Director, National Counterterrorism Center	60
Hon. Phillip Goldberg, Assistant Secretary of State for Intelligence and Research	65

SUPPLEMENTAL MATERIAL

Prepared statement of Hon. James R. Clapper, Jr.	9
---	---

CURRENT AND PROJECTED NATIONAL SECURITY THREATS TO THE UNITED STATES

WEDNESDAY, FEBRUARY 16, 2011

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

The Committee met, pursuant to notice, at 10:03 a.m., in Room SH-216, Hart Senate Office Building, the Honorable Dianne Feinstein (Chairman of the Committee) presiding.

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

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

Chairman FEINSTEIN. Good morning, everyone. This hearing will come to order.

This Committee meets today in open session to hear testimony from the leaders of the intelligence community on the threats facing the United States. The Committee has been holding worldwide threat hearings since 1994 as a way to focus the Committee and the Senate on the national security challenges and opportunities that we face as a nation and to allow the American public a view into the assessments of the United States intelligence agencies about the dangerous world in which we live.

Yesterday the Senate passed overwhelmingly at least a temporary extension, to the end of May, of three very vital sections of the United States PATRIOT Act. And I have been surprised about how much misunderstanding they have caused. I've also been surprised at how short memories are.

Explosives today are much more sophisticated. They are undetectable. Just a very short time ago, in Dubai, printer cartridges were found with an undetectable explosive in them. And if it hadn't been for good intelligence that brought the inspectors back a second time and said, "You've got to open these things up and look," two bombs would have left Dubai, headed for the United States, theoretically to Chicago—I don't know whether this is actually fact, but to a synagogue in Chicago—and likely would have exploded either over Canada or part of the United States.

So this, to me, is eloquent testimony of the need to provide the opportunities for intelligence. This nation does still remain in jeopardy. Just a short time ago you had both Director Clapper as well as Secretary Napolitano testify in the House about the level of concern, threat and potential jeopardy to our country.

(1)

So I think these tools are very important. And I am always surprised at the opposition, because I would have thought somebody, if they had a problem, would have called me and said, "Look, this is being done wrong; please take a look at it," because previously, from time to time, the Judiciary Committee and the Intelligence Committee do just that.

But providing the intelligence community with the tools they need, with proper due process—and we do have such a thing as a Foreign Intelligence Surveillance Court that meets 24/7, that gives what is essentially like a warrant, so the roving wiretap is all done in a legal way, and the only difference is that the individual is the target, not the specific telephone, because they change telephones so quickly. So the technology that improves also means that intelligence techniques have to improve.

I'm going to skip most of this, but let me just say that it is my hope in the coming months that we will be able to prepare the American public to work with the public media and set expectations that make clear that, in the event of an attack we hope won't come, the fault lies with those who commit those acts, not with those who go to work every day to prevent these attacks. I think, for those of us that read the intelligence on a regular basis, we know that there is jeopardy out there. And we know that, if something were to happen in this country, everyone sitting at this table would be asked, "Why didn't you know?" And they have to have the tools to find out. And we have to see that the due process is provided in that process.

So I think we've come a very long way since 9/11. I truly believe our country is much safer than it was prior to 9/11. And a great deal of it really is due to the people testifying here today and to the agencies that they so well run. I deeply believe that.

So let me introduce the witnesses. They are the Director of National Intelligence, James Clapper, who will deliver the opening statement following the comments of the Vice Chairman; the Director of the Central Intelligence Agency, whom I've happened to have known for a very long time, Leon Panetta; the Director of the Defense Intelligence Agency, General Ronald Burgess; the Director of the Federal Bureau of Investigation, also whom I've known for a long time, Bob Mueller; and the Director of the National Counterterrorism Center, Michael Leiter; Assistant Secretary of State for Intelligence and Research Philip Goldberg.

So I would like to note that this will be Director Mueller's final appearance at a worldwide threat hearing, as he is now nine and a half years into his 10-year term as FBI Director. But we have another half year with you, Director Mueller, so I don't want to engage in goodbyes at this time. And who knows, maybe there's a way that won't happen.

So now, if I may, I'd like to turn to the distinguished Vice Chairman of this Committee, with whom it is a pleasure for me to work, Senator Chambliss.

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

Vice Chairman CHAMBLISS. Well, thanks, Madam Chairman. And again, it's a privilege for me to have the opportunity to continue

to work with you on this particular issue that's of such vital importance.

And maybe we ought to start that chant, "Ten more years."

[Laughter.]

I'd be in favor of that.

Gentlemen—and this is a very impressive lineup we have this morning—thanks for being here. Thanks for your willingness to serve our country in the respective capacities that each of you do. Together you represent the men and women of the intelligence community who work quietly behind the scenes, often in dangerous locations, to ensure our nation's safety. And our thanks goes out to each and every one of those folks that work for you and put their life in harm's way every single day, and we appreciate them very much.

Recent events in the Middle East and North Africa remind us how rapidly the world can change. The Internet and social network media play a key role in this evolving landscape and can complicate our ability to understand and keep pace with unfolding events. We saw it in Tunisia and in Egypt, may be watching it soon elsewhere.

Staying ahead of the curve means that the IC must be inside the networks to collect not only on high-level decisionmakers, but all those who are positioned to affect the status quo. This is as true in the context of international leadership and regional stability as it is in terrorist networks and insurgencies.

We look to the IC to tell us of impending threats. This is not easy, but it is your job and you must be organized, resourced and equipped to do it. Congress must help equip you by ensuring you have the tools and appropriate authorities to do this job.

Three important tools in the Foreign Intelligence Surveillance Act expire soon. Each one of those—lone wolf, roving wiretaps and business records—is an essential authority and we must make sure that they remain in force. Obviously, the Senate acted last night on a short-term extension of these, and we hope that we're able to get a more lengthy extension in the very near future.

And again, to General Clapper and Director Mueller and General Alexander, who is not here, thank you for coming over the other night and visiting with our folks and providing some very valuable answers to questions.

Another area where Congress must help is in interrogation and detention policy. Two years after the President's executive orders on interrogation and detention, we still do not have an adequate system in place for detaining captured terrorists, collecting intelligence from them, and holding them until they can no longer do us harm. We cannot keep letting dangerous detainees go free. It's time for Congress to provide a framework for detention and interrogation wherever detainees are captured.

Congress can and must help in these and other areas, like cyber. But in these difficult economic times, resources are certainly a challenge. Resources are not infinite and must be prioritized. I caution the IC to not spread itself too thin in trying to respond to every potential national security issue without an honest assessment of your capabilities to add value. In my opinion, assessments produced in the past year—such as "The Technology on Fresh

Water Availability in 2040” and “The Devil in the Corner: Cookstoves and the Developing World”—have no place in the IC.

This is more true at a time when you are facing severe budget constraints and priorities like terrorism, detainee recidivism, the proliferation of weapons of mass destruction, the cyber threat, two wars and unstable countries throughout the Middle East. You must focus on the greatest threats and leave issues that have little intelligence value or that can be better analyzed elsewhere to others in the government or, more importantly, the private sector.

Today is your opportunity to tell us how you have ranked the biggest threats we face and where you think your resources should be focused. It is imperative that the \$55 billion in taxpayer money you have requested will be spent wisely. Again, I thank you for your service to our country. Thanks for being here today.

And, Madam Chair, I look forward to their testimony.

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

Before turning to Director Clapper, the rounds will be five minutes and we'll use the early-bird rule, so that everybody knows.

Director Clapper, welcome.

STATEMENT OF HON. JAMES R. CLAPPER, JR., DIRECTOR OF NATIONAL INTELLIGENCE, ACCOMPANIED BY: HON. LEON PANETTA, DIRECTOR, CENTRAL INTELLIGENCE AGENCY; HON. ROBERT S. MUELLER III, DIRECTOR, FEDERAL BUREAU OF INVESTIGATION; LIEUTENANT GENERAL RONALD BURGESS, USA, DIRECTOR, DEFENSE INTELLIGENCE AGENCY; HON. MICHAEL LEITER, DIRECTOR, NATIONAL COUNTERTERRORISM CENTER; AND HON. PHILLIP GOLDBERG, ASSISTANT SECRETARY OF STATE FOR INTELLIGENCE AND RESEARCH

Director CLAPPER. Thank you, Madam Chairman, Vice Chairman Chambliss, distinguished members of the Committee, for inviting us to present the 2011 Worldwide Threat Assessment. I'm very pleased and proud to be joined by my intelligence community colleagues. The intelligence community is indeed a team, and it's a community I'm very proud to be associated with.

Represented at the witness table today, as you alluded, are hundreds of years of experience and dedicated public service. I'd like to especially commend Director Bob Mueller for his superb service, as you have recognized him as the FBI Director for nearly a decade. He's been an outstanding participant, partner and leader in the intelligence community—and my good friend, CIA Director Panetta, whose years of public service and wisdom have been so helpful to me. And the two organizations they head are two of the crown jewels of the intelligence community and they and the nation are fortunate to have such magnificent leaders.

I want to express my appreciation to this Committee as well, first to publicly acknowledge your unanimous vote in support of the president's nominee as my principal deputy—my gain, Leon's loss—Ms. Stephanie O'Sullivan, to be the Principal Deputy DNI. As was shown by this vote to get our team in place, your support and partnership are essential. And, secondly and more broadly, the intelligence community needs your oversight.

As I know you understand, it's not possible to cover the full scope of worldwide threats in brief oral remarks, so I'd like to take this opportunity to highlight four broad areas of significant concern to the intelligence community. Subject to your concurrence, I've submitted a longer statement for the record that reflects the collective insights of the extraordinary men and women of this community.

First and foremost is terrorism. Counterterrorism is our top priority because job one for the intelligence community is to keep Americans safe and the homeland secure. The intelligence community has helped thwart many potentially devastating attacks. One of the most recent was the cargo bomb plot that you alluded to, this past October. We've apprehended many bad actors throughout the world and greatly weakened much of al-Qaida's core capabilities, including operations, training, and propaganda. We're especially focused on al-Qaida's resolve to recruit Americans and to spawn affiliate groups, most notably its chapter in the Arabian Peninsula.

We also see disturbing instances of self-radicalization among our citizens. While homegrown terrorists are numerically a small part of the global threat, they have a disproportionate impact because they understand our homeland, have connections here and have easier access to U.S. facilities.

Counterterrorism is central to our overseas operations, notably in Afghanistan. And while progress in our efforts to disrupt, dismantle and defeat al-Qaida is hard-won, we have seen and I believe will continue to see success in governance, security and economic development that will erode the willingness of the Afghan people to support the Taliban and their al-Qaida allies.

Although U.S. combat operations have come to an official close in Iraq, bombings by terrorists—specifically al-Qaida—mean that our work to help solidify the security gains we've made there thus far remain a high priority.

Another major concern is proliferation of weapons of mass destruction. The proliferation threat environment is a fluid, borderless arena that reflects the broader global reality of an increasingly free movement of people, goods and information. While this environment is critical for peaceful scientific and economic advances, it also allows the materials, technologies and, importantly, know-how related to chemical, biological, radiological and nuclear weapons, as well as missile delivery systems, to be shared with ease and speed.

Iran is a key challenge. In the months following the 2009 Iranian elections, we saw a popular movement challenge the authority of its government. We also saw the Iranian government crack down with harsher authoritarian control, and today we are seeing similar unrest, although so far on a much smaller scale than was the case in 2009, and a similarly harsh crackdown by the regime.

We look forward to discussing Iran further with you in closed session, particularly its nuclear posture. But suffice it to say here we see a disturbing confluence of events—an Iran that is increasingly rigid, autocratic, dependent on coercion to maintain control and defiant toward the West, and an Iran that continues to advance its uranium enrichment capabilities along with what appears to be the scientific, technical and industrial capacity to produce nuclear weapons if its leaders choose to do so.

North Korea's nuclear weapons and missile programs also pose a serious threat, both regionally and beyond. Pyongyang has signaled a willingness to reengage in dialogue, but it also craves international recognition as a nuclear weapons power, and it has shown troubling willingness to sell nuclear technologies.

Third, I'd also want to highlight another major challenge for the intelligence community, the reality that we live in an interconnected, interdependent world where instability can arise and spread quickly beyond the borders. Of course, vivid examples of this include the sudden fall of the Ben Ali regime in Tunisia and the contagious mass uprisings in Egypt which led to the departure of former president Mubarak and demonstrations elsewhere. The intelligence community is following these fast-moving events closely.

I'd like to take a moment here to address some recent questions that have been raised as to whether the intelligence community has been tracking and reporting on these events effectively. The answer, I believe, in short, is yes. For some time the intelligence community has been assessing the political and socioeconomic drivers of instability in the region, including analyses of historical transitions of power to understand future risks to regime stability.

Specific triggers for how and when instability would lead to the collapse of various regimes cannot always be known or predicted.

What intelligence can do in such cases is reduce, but certainly not completely eliminate, uncertainty for decisionmakers, whether in the White House, the Congress, the embassy or the foxhole, as we did in this instance. But we are not clairvoyant.

The intelligence community provided critical intelligence before and throughout this crisis and has been reporting on unrest, demographic changes, economic uncertainty and the lack of political expression for these frustrations.

In addition to our classified sources in the analysis, from mid-December to mid-February, we produced some 15,000 open-source products on the region, providing insights from traditional local media—both print and electronic—to include social media. In this regard, I'd like to clarify a less-than-precise turn of phrase I used last week during a hearing with the House Intelligence Committee where I characterized the Muslim Brotherhood as largely secular.

In my attempt to shorthand my description of the Muslim Brotherhood, my message was lost and that's regrettable. The Muslim Brotherhood is obviously not secular. What I had hoped to convey and would like to clearly state here is that the Muslim Brotherhood in Egypt tries to work through a political system that has been largely secular in its orientation.

The Muslim Brotherhood is a large, heterogeneous global organization whose agenda and impact differ from country to country. In Egypt, it has gained much of its support through both grassroots outreach and nonreligious functions like providing health clinics and daycare centers. It also has different factions, including a conservative wing whose interpretation of Islam runs counter to broad electoral participation, and a younger, more liberal wing who are more inclined to work through a secular political process.

In any event, I expect the Muslim Brotherhood will likely be a part of the political process in Egypt, as will other opposition

groups. What we saw in Egypt was far broader than the Muslim Brotherhood and included people of different faiths, ages and walks of life.

What's happening in the Mideast is yet another manifestation of the fact that economic challenges have become paramount in our interdependent world and cannot be underestimated, from increasing debt to fluctuating growth to China's economic rise.

Another example of such interdependent challenges are cyber threats and their impacts on our national security and economic prosperity. This threat is increasing in scope and scale. Industry estimates that the production of malicious software has reached its highest level yet, with an average of 60,000 new programs or variations identified every day.

Moreover, we're seeing a rise in intellectual property theft. Industry has estimated that the loss of intellectual property worldwide to cyber crime continues to increase, with the most recent 2008 annual figures approach \$1 trillion in losses. While costs are extremely difficult to pinpoint, we believe this trend is only getting worse.

Last year, some of our largest information technology companies discovered that throughout much of 2009 they had been the targets of systematic efforts to penetrate their networks and acquire proprietary data. The intrusions attempted to gain access to repositories of source code, the underlying software that comprises the intellectual secret sauce, if you will, of most of these companies.

Along with following current cyber threats, the intelligence community is analyzing the interconnected implications of energy security, drug trafficking, emerging diseases, water availability, international organized crime, climate change, humanitarian disasters, and other global issues.

In the face of these challenges, we in the intelligence community must always remain attentive to developments in all parts of the globe and in many spheres of activity. And that is why I consider it imperative that we must sustain a robust, balanced array of intelligence capabilities.

Fourth, counterintelligence is another area of great concern to me. We face a wide range of foreign intelligence threats to our economic, political, and military interests at home and abroad. In addition, cyber and other threats clearly tied to foreign intelligence services and unauthorized disclosures of sensitive and classified U.S. government information also pose substantial challenges.

Perhaps the most prominent example recently is the unauthorized downloading of classified documents, subsequently released by WikiLeaks. From an intelligence perspective, these disclosures have been very damaging.

I want to assure the Committee that as part of a broader whole-of-government effort, we in the intelligence community are working to better protect our information networks by improving audit and access controls, increasing our ability to detect and deter insider threats, and expanding awareness of foreign intelligence threats across the U.S. government. I believe we can and will respond to the problems of intrusions and leaks, but we must do without degrading essential intelligence integration and information sharing.

In sum, the intelligence community is better able to understand the vast array of interlocking concerns and trends, anticipate developments, and stay ahead of adversaries, precisely because we operate as an integrated community. And our presence here today, I like to think, is a manifestation of that.

This is a segue for me to say a few words about the value and size of the Office of the Director of National Intelligence, as that too has been a subject of extensive debate.

Shortly after I became the DNI six months ago, I commissioned a thorough review of the organization in the context of the intelligence reform law, other statutes and executive orders and what they direct the DNI to do. I decided we could reduce or eliminate some functions not required by law or executive order that are not core missions.

I also identified elements that should transfer out of the ODNI to another agency that would carry out these services of common concern on behalf of the DNI. Or, said another way, we don't have to do everything on the DNI staff. Based on this efficiencies review, the Office of the DNI is being reduced in size and budget. And I look forward, at a separate time, to presenting our plans in detail to the Committee.

I think the value added by the ODNI is the integration of intelligence efforts and activities—in particular, the harmonization of collection and analysis to ensure that the community is acquiring the best possible intelligence and providing the best possible analysis on the difficult issues that the nation faces.

I thank you and the distinguished members of the Committee for your support to the intelligence community and your dedication to the security of the nation. My colleagues and I look forward to your questions and our discussion.

[The prepared statement of Director Clapper follows:]

**Statement for the Record on the
Worldwide Threat Assessment of the
U.S. Intelligence Community for the
Senate Select Committee on Intelligence**



James R. Clapper

Director of National Intelligence

February 16, 2011

U.S. INTELLIGENCE COMMUNITY
WORLDWIDE THREAT ASSESSMENT
FEBRUARY 16, 2011

STATEMENT FOR THE RECORD

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

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

Terrorism

Terrorism will remain at the forefront of our national security threats over the coming year. Robust counterterrorism (CT) and information sharing efforts continue worldwide, and this extensive cooperation has stopped a number of potentially tragic events from occurring and hindered many others. Moreover, these efforts are changing the nature of the threat we face, with clear progress being made in some fronts, but new challenges arising elsewhere. The core al-Qa'ida, which we define as the group's Pakistan-based leadership and cadre organization, continues to be damaged by ongoing CT efforts on the part of the United States and its allies.

Al-Qa'ida Remains Dangerous

Al-Qa'ida continues to aspire to spectacular attacks. Over the past two years, core al-Qa'ida has continued to be committed to high-profile attacks against the West, including plans against the United States and Europe. Despite setbacks since the 7 July 2005 attacks in London—the last

successful al-Qa'ida-backed plot in the West—we have seen the group continue to pursue a range of attack methodologies and recruit operatives familiar with the West. In light of the loss of experienced personnel, we judge it will seek to augment sophisticated plots by increasing its operational tempo with smaller, simpler ones to demonstrate its continued relevance to the global jihad.

Regional Affiliates Expanding Their Agendas

Absent more effective and sustained activities to disrupt them, some regional affiliates—particularly al-Qa'ida in the Arabian Peninsula (AQAP) and al-Shabaab in Somalia—probably will grow stronger. The result may be that regional affiliates conducting most of the terrorist attacks and multiple voices will provide inspiration for the global jihadist movement.

These regional affiliates will continue to focus on local agendas, but also will pursue international terrorist attacks. These groups have been stepping up their propaganda to expand their influence and connect with potential recruits outside their traditional areas of operation.

The Intelligence Community assesses that while AQAP's rhetoric in 2010 indicates the group is focused on attacks in Yemen and Saudi Arabia, it is increasingly devoted to directing and inspiring attacks on the US Homeland and other targets in the West, as well as Western interests in Yemen. Energized by the near success of the 2009 Christmas Day airliner plot, AQAP directed the recently intercepted IED shipment from Yemen, disguised as printer cartridges.

We remain vigilant that al-Shabaab may expand its focus from fighting to control Somalia to plotting to attack the Homeland. Al-Shabaab's cadre of Westerners includes American converts, some of whom have assumed leadership positions, and other fighters of ethnic Somali-descent.

Other groups vary in their strategic agenda, external reach, and capabilities to conduct anti-US operations, including those against the US Homeland. Most al-Qa'ida in the Lands of the Islamic Maghreb (AQIM) operations against Western targets have been kidnappings-for-ransom. The group also has targeted embassies in North Africa and the Sahel, executed an American, and is augmenting its operational reach in West Africa.

Tehrik-e-Taliban Pakistan (TTP)'s involvement in attacks—such as the May 2010 failed car bombing in Times Square, New York, and the assault last April on the US Consulate in Peshawar—demonstrate its intent and ability to target US interests, including in the homeland. TTP will remain heavily engaged in its efforts against the Pakistani military and Coalition Forces in Afghanistan; these actions indicate the group also is seeking to expand its international reach.

Lashkar-e-Tayyiba (LT) remains a significant threat to Indian interests in South Asia and an increasing threat to US forces in Afghanistan.

I will discuss Al Qai'da in Iraq (AQI) later, as part of my assessment of the situation in Iraq.

New Challenges

Recruitment for the broader movement has been resilient. The underlying ideology continues to resonate with a small but active set of Sunni extremists across the globe who can replace operatives who are killed, arrested, or become disaffected. Ideologues and clerics in the movement aggressively

exploit issues, such as the presence of US forces in Afghanistan and Iraq and US support for Israel, to fuel their narrative of a hostile West determined to undermine Islam.

The appeal of al-Qa'ida's ideology worldwide has increased the flow of Western recruits—particularly Europeans and North Americans. Over the past five years, a small but growing number of Americans have become involved in the global jihadist movement. They have occupied a variety of roles with extremist groups overseas, such as foot soldiers and front line combatants, operational planners, propagandists, attack operatives for Homeland plots, and even senior leaders, with some American extremists combining multiple roles. American extremists will likely remain a small part of the jihad, but play a disproportionately large role in the threat to US interests because of their understanding of the US Homeland, connections to compatriots back in the United States, and relatively easy access to the Homeland and potentially to US facilities overseas.

Disrupted plots and arrests of homegrown violent Sunni extremists in the US last year remained at elevated levels similar to 2009. Plots disrupted during the past year were unrelated operationally, but are indicative of a collective subculture and a common cause that rallies independent extremists to want to attack the Homeland. Key to this trend has been the development of a US-specific narrative that motivates individuals to violence. This Internet-accessible narrative—a blend of al-Qa'ida inspiration, perceived victimization, and glorification of past homegrown plotting—relates to the unique concerns of US-based extremists. However, radicalization among US-based extremists remains a unique process based on each individual's personal experiences and motivating factors.

Another key concern is the ability of ideological influencers and recruiters to mobilize new recruits in the West by exploiting anti-Islamic incidents, legislation, and activities, such as threats of Koran burning and restrictions on Muslim attire. Individuals like Yemen-based Anwar al-Aulaqi demonstrate the appeal of these types of Western extremist ideologues. These ideologues have also proved adept at spreading their messages through the media and Internet-based platforms.

Lastly, we will need to be aware of shifts in the types of attacks that terrorists may try to launch against us. Participants in the global jihad have relied on improvised and scavenged military explosives as well as other improvised and conventional weapons. The reliability and availability of these materials make it likely that they will remain a major part of terrorists' inventory. However, AQAP's efforts to employ known IED technologies in innovative ways, and their exhortations to followers to conduct small-scale attacks that can still have major impact, all suggest we face a complex defensive challenge.

Assessing the Terrorist CBRN Threat

We continue to monitor the chemical, biological, radiological, and nuclear (CBRN) threat closely. Some terror groups remain interested in acquiring CBRN materials and threaten to use them. Poorly secured stocks of CBRN provide potential source material for terror attacks.

Proliferation

Ongoing efforts of nation-states to develop and/or acquire weapons of mass destruction (WMD) constitute a major threat to the safety of our nation, our deployed troops, and our allies.

The threat and destabilizing effect of nuclear proliferation, as well as the threat from the proliferation of materials and technologies that could contribute to existing and prospective chemical and biological weapons programs, are among our top concerns.

Traditionally biological, chemical, or nuclear weapon use by most nation states has been constrained by deterrence and diplomacy, but these constraints may be of less utility in preventing the use of these weapons by terrorist groups. Moreover, the time when only a few states had access to the most dangerous technologies is well past. Biological and chemical materials and technologies, almost always dual-use, move easily in our globalized economy, as do the personnel with scientific expertise designing and using them. The latest discoveries in the life sciences also diffuse globally with astonishing rapidity.

We assess that many of the countries 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—also may be acquired by states that do not now have such programs. Terrorist or insurgent organizations acting alone or through middlemen may acquire nuclear, chemical, and/or biological weapons and may seek opportunistic networks as service providers. In the context of WMD proliferation by nation-states, we have no information of states having deliberately provided CBRN assistance to terrorist groups.

Iran

The Iranian regime continues to flout UN Security Council restrictions on its nuclear and missile programs. There is a real risk that its nuclear program will prompt other countries in the Middle East to pursue nuclear options.

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

One of the most important capabilities Iran is developing is uranium enrichment, which can be used for either civil or weapons purposes. As reported by the International Atomic Energy Agency (IAEA), the number of centrifuges installed at Iran's enrichment plant has grown significantly from about 3,000 centrifuges in late 2007 to over 8,000 currently installed. At the same time, the number of operating centrifuges that are enriching uranium has grown at a much slower pace from about 3,000 centrifuges in late 2007 to about 4,800 in late 2010. Iran has used these centrifuges to produce more than 3,000 kilograms of low enriched uranium.

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

We judge Iran would likely choose missile delivery as its preferred method of delivering a nuclear weapon. Iran already has the largest inventory of ballistic missiles in the Middle East. It

continues to expand the scale, reach and sophistication of its ballistic missile forces, many of which are inherently capable of carrying a nuclear payload.

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

Iran's growing inventory of ballistic missiles and its acquisition and indigenous production of anti-ship cruise missiles (ASCMs) 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 those of the US. Its ballistic missiles are inherently capable of delivering WMD, and if so armed, would fit into this same strategy.

In February 2010, Iran displayed a new rocket engine design that Tehran said is for the Simorgh, a large space launch vehicle. It also displayed a simulator of the Simorgh. This technology could be used for an ICBM-class vehicle. We are watching developments in this area very closely.

North Korea

Pyongyang's nuclear weapons and missile programs pose a serious threat to the security environment in East Asia, a region characterized by several great power rivalries and some of the world's largest economies. North Korea's export of ballistic missiles and associated materials to several countries, including Iran and Syria, and its assistance to Syria in the construction of a nuclear reactor, destroyed in 2007, illustrate the reach of the North's proliferation activities. Despite the October 2007 Six-Party agreement in which North Korea reaffirmed its commitment not to transfer nuclear materials, technology, or know-how, we remain alert to the possibility North Korea could again export nuclear technology.

We judge North Korea has tested two nuclear devices. The North's October 2006 nuclear test is consistent with our longstanding assessment that it had produced a nuclear device, although we judge the test itself to have been a partial failure. The North's probable nuclear test in May 2009 is consistent with our assessment that the North continued to develop nuclear weapons, and with a yield of roughly two kilotons TNT equivalent, was apparently more successful than the 2006 test. Although we judge North Korea has tested two nuclear devices, we do not know whether the North has produced nuclear weapons, but we assess it has the capability to do so.

In November 2010, North Korean officials told US visitors that North Korea is building its own light water reactor (LWR) for electricity production. The claimed prototype LWR has a planned power of 100 megawatt-thermal and a target completion date of 2012. North Korean officials also told the US visitors in November that it had constructed and started operating a uranium enrichment facility at Yongbyon that they claimed was designed to produce low-enriched uranium (LEU) and support fabrication of reactor fuel for the LWR. The US visitors were shown a facility at the existing fuel fabrication complex in Yongbyon, which North Korea described as a uranium enrichment plant. North Korea further claimed the facility contained 2,000 centrifuges and was operating and producing LEU that would be used to fuel the small LWR. The North's disclosure supports the United States' longstanding assessment that the DPRK has pursued a uranium-enrichment capability.

We judge it is not possible the DPRK could have constructed the Yongbyon enrichment facility and begun its operation, as North Korean officials claim, in such a short period of time—less than 20 months—without having previously conducted extensive research, development, testing, fabrication, and assembly or without receiving outside assistance.

Based on the scale of the facility and the progress the DPRK has made in construction, it is likely that North Korea has been pursuing enrichment for an extended period of time. If so, there is clear prospect that DPRK has built other uranium enrichment related facilities in its territory, including likely R&D and centrifuge fabrication facilities, and other enrichment facilities. Analysts differ on the likelihood that other production-scale facilities may exist elsewhere in North Korea.

Following the Taepo Dong 1 launch in 1998, North Korea conducted launches of the Taepo Dong 2 (TD-2) in 2006 and more recently in April 2009. Despite the most recent launch's failure in its stated mission of orbiting a small communications satellite, it successfully tested many technologies associated with an ICBM. Although both TD-2 launches ended in failure, the 2009 flight demonstrated a more complete performance than the July 2006 launch. North Korea's progress in developing the TD-2 shows its determination to achieve long-range ballistic missile and space launch capabilities. If configured as an ICBM, the TD-2 could reach at least portions of the United States; the TD-2 or associated technologies also could be exported.

Because of deficiencies in their conventional military forces, the North's leaders are focused on deterrence and defense. The Intelligence Community assesses Pyongyang views its nuclear capabilities as intended for deterrence, international prestige, and coercive diplomacy. We judge that North Korea would consider using nuclear weapons only under certain narrow circumstances. We also assess, albeit with low confidence, Pyongyang probably would not attempt to use nuclear weapons against US forces or territory unless it perceived its regime to be on the verge of military defeat and risked an irretrievable loss of control.

Global Challenges

South Asia

Afghanistan

The Afghan Government will likely continue to make incremental progress in governance, security, and development in 2011. The Taliban-led insurgency, despite tactical defeats and operational setbacks in 2010, will threaten US and international goals in Afghanistan through 2011. Insurgents will continue to use propaganda to discredit the International Security Assistance Force (ISAF) and the Afghan Government, while asserting that the Taliban is the legitimate authority in Afghanistan. Taliban propaganda will characterize ISAF as an occupation force undermining Afghan culture and religion, while portraying Kabul as a corrupt, illegitimate tool of foreign interests.

The Taliban will use high-profile attacks, assassination of key government figures, and efforts to extend shadow governance to undermine local perceptions of security and influence segments of the

population. The insurgents retain the capability and intent to conduct high-profile attacks that have had a disproportionate effect on local and international perceptions of security. Although the majority of these assaults were tactically ineffective, they garnered domestic and international media attention and served as strategic communication opportunities for the insurgents. Islamabad has assisted in some US counterterrorism efforts and has arrested some senior Afghan Taliban members.

Afghan National Security Force Development

Although the Afghan National Army (ANA) and Afghan National Police (ANP) have exceeded their 2010 manpower targets, their development and effectiveness are likely to be affected by high-attrition and absenteeism. The Afghan National Security Forces (ANSF), which have improved their ability to plan and execute operations successfully with ISAF support, will continue to rely on ISAF for support and funding through 2011. The Afghan forces have been most successful in areas with limited insurgent threat or a robust ISAF presence and we judge this capability will rise modestly during 2011 as additional ANSF units partner with ISAF units. Progress, however, will be uneven.

The ANSF-led security effort to plan and carry out static security operations in support of the 2010 parliamentary elections was a significant step forward, despite some command and personnel problems. ISAF partnering and mentoring efforts have begun to show signs of success at the tactical and ministerial level.

ANP will depend on ISAF partnering and oversight for success for the next three years. The Afghan Local Police (ALP) has established a modest number of locally raised security forces and offers a new way to secure remote areas of Afghanistan without diverting ANSF personnel. We judge that the program over time will improve population security and boost local confidence where it has been established. ALP units have had initial success, securing polling sites for last September's elections in remote villages in the west, and fighting the Taliban in Bermal District, historically a Taliban stronghold in Paktika Province.

Afghan Governance Challenges

Predatory corruption—extortion, land seizures, illegal checkpoints, kidnapping, and drug trafficking that threaten local communities and authority structures—has fueled the insurgency and is detrimental to the Afghan people's perception of their government and to the international community's objectives. Since late 2009, President Karzai has been willing to endorse some offensive military operations to defeat the insurgency. He has focused on promoting reconciliation talks with the Taliban and implementing policies he perceives will resolve Afghan security issues.

The Karzai government had some successes in 2010. While the National Assembly election in September was marred by fraud and low voter turnout, the administration was able to conduct the election. Tax collections were up, and the internationally-attended Kabul Conference in July and the June Consultative Peace Jirga took place with few problems.

Status of the Afghan Drug Trade

Alternative livelihood programs designed to encourage Afghan farmers to end poppy cultivation will not significantly discourage farmers from planting poppy in 2011, primarily because a lack of security impedes their implementation on a large scale. High opium prices—a five-year high due to decreased opium yield in 2010 and the increased risk to traffickers posed by Coalition activities—

and a lack of security and market infrastructure in key poppy-growing regions have led many farmers to favor poppy for the fall planting season. In addition, wheat-centric programs are unlikely to foster a long-term transition away from poppy because wheat is largely a subsistence crop that does not compete well economically with opium. Nonetheless, Helmand Province's Food Zone program has diminished poppy cultivation in targeted areas. Such alternative livelihood efforts continued in 2010, and the increased security presence and poor poppy harvest in areas like central Helmand resulted in more reports of farmers willing to risk Taliban threats in exchange for assistance. More broadly, Afghan and international efforts to focus on law enforcement activities on the opiate trade led to the seizure of 11 metric tons in 2010, denying revenue to traffickers and Taliban members who tax and otherwise profit from the trade.

Neighboring States and Afghanistan

Afghanistan has long served as an arena for competing powers, and prospects for enduring Afghan stability will depend significantly on the roles played by neighboring states. Afghanistan's neighbors and regional powers have lasting strategic interests in Afghan stability, transit and trade agreements, and the political situation in Kabul.

International Support to Afghanistan

International troop support for Afghanistan improved in 2010; six new non-NATO nations' contributed troops and trainers to ISAF or Operation Enduring Freedom. Many European governments and India see Afghanistan as a foreign policy priority. They continue to support broad efforts to stabilize the political system, build the economy, and increase security.

Pakistan

Pakistan-based militant groups and al-Qa'ida are coordinating their attacks inside Pakistan despite their historical differences regarding ethnicity, sectarian issues, and strategic priorities. This offensive orientation has included greater efforts at making al-Qa'ida propaganda and videos available on Pakistan-focused, Urdu-language sites. We judge Pakistani extremists and al-Qa'ida will try to conduct additional costly terrorist attacks against the Pakistan Government and US and other foreign interests throughout the country. These extremists likely view high-impact attacks as a way of draining US and Pakistani government resources, retaliating against US CT actions, deterring Pakistani CT and counterinsurgency (COIN) efforts, and causing locals to question the value of these efforts and Islamabad's ability to maintain security throughout the country. However, according to a 2010 Pew Global Attitudes Project poll, an overwhelming majority of Pakistanis (91 percent) describe terrorism as a very big problem in their country, and both the Taliban and al-Qa'ida draw little public support (less than 20 percent favorability).

Efforts Against Insurgents and Terrorists

Islamabad has demonstrated determination and persistence in combating militants it perceives dangerous to Pakistan's interests, particularly those involved in attacks in the settled areas, including FATA-based Tehrik-e Taliban Pakistan, al-Qa'ida, and other associated operatives in the settled

areas. Islamabad's ability to counter extremists in the safehavens is improving although the extremist threat has in no sense been contained. Major Pakistani military operations have since taken place in six of the seven FATA areas, with North Waziristan being the exception, but militants have proven adept at evading impending Pakistan military operations and in re-infiltrating previously cleared areas.

- The summer 2010 floods adversely impacted combat operations against extremist organizations, due to interruptions of supply lines and poor weather conditions that affected ground and air operations. We assess that the Pakistan army will continue to attempt to stabilize cleared areas of the FATA and Khyber Pakhtunwa and support efforts to build up local tribal "auxiliary" police units and expand the Frontier Scouts to attempt to provide a lasting security regime.
- Pakistan's high acquittal rate for individuals accused of terrorism is a cause for concern; empowerment of the country's law enforcement and judicial authorities and better coordination among its intelligence services will be key.

COIN Improvements

Operations in 2009-2010 reflected lessons the Pakistan Army learned from earlier, unsuccessful operations against Tehrik-e Taliban Pakistan and affiliated militants. The Pakistan military more effectively supported ground operations with fixed and rotary wing assets. Specialized training provided to elite Pakistani army units and paramilitary Frontier Scouts likely has resulted in improved combat capabilities that are important to the COIN fight in the FATA. Tribal levies are being expanded and upgraded significantly to allow the Frontier Scouts to concentrate on heavier security tasks.

Political and Economic Outlook

Tension between Pakistan's military and civilian leadership will continue to ebb and flow in the months ahead as both sides attempt to safeguard personal priorities, including retaining positions of power, and cultivating legacies, with a shared desire to avoid direct military intervention in domestic politics. Pakistan's economy is slowly recovering after the flooding last summer. Concerns about inflation, however, are likely to inhibit Islamabad from fully implementing key fiscal reforms sought by the IMF and international lenders. Rising inflation remains a concern for the public and higher prices probably will delay legislative efforts to reform the tax system. The State Bank of Pakistan reports that food prices in November 2010 were 21 percent higher than in November 2009. The bank expects prices will remain high for months because the flooding disrupted the food supply chain.

India

India is pursuing a robust foreign policy agenda, working to enhance ties to East and Southeast Asian nations, offering reciprocal visits with China, and hosting high level engagements in New Delhi by the U.S., French, and Russian Presidents in the last months of 2010. Government of India officials welcomed, in particular, the U.S. endorsement of an eventual seat for India on the UN Security Council, and U.S. commitment to support Indian membership in the four international export control regimes --- in a phased manner and consistent with maintaining the core principles of these regimes --- as India takes steps toward full adoption and implementation of the regimes'

requirements. New Delhi, meanwhile, has been working to deepen its engagement with multilateral fora such as the G-20, East Asian Summit, and the climate change discussions in Mexico.

India's ties to Pakistan are largely unchanged. Both sides have stated their willingness to put all issues on the table and are committed to another round of talks at the foreign minister level at a date to be determined. Senior Indian officials continue to call for progress in the prosecution of individuals charged with the November 2008 attacks in Mumbai, and remain concerned at the length of the process taking place in Pakistan. New Delhi, nevertheless, continues to underscore its desire for peaceful and stable relations with Islamabad.

Indian officials have welcomed the international community's commitment to remain in Afghanistan until the end of 2014. New Delhi continues to believe that a stable, friendly Afghanistan is crucial to Indian security. Despite successful and attempted attacks on the official, commercial, and non-governmental Indian presence in Afghanistan, the government believes it has a mandate, from both the Indian and Afghan peoples, to continue civilian assistance programs and reconstruction efforts there. India's open assistance programs provide only noncombat aid, although the Indian media continues to discuss whether the country should also consider various capacity-building programs for the Afghan security forces as a means to bolster internal security.

India is closely watching a variety of issues that New Delhi believes will be of primary concern in 2011, to include questions about whether or how to reconcile Afghan Taliban, US, and ISAF views about the current and future security situation in Afghanistan, and developments in efforts to foster civil society, a solid economy, and robust democratic processes. New Delhi is likely to seek dialogue on these issues with a variety of interested nations. The Pakistani Government, however, remains concerned that India is using its presence in Afghanistan and its discussions with the US and other nations to develop policies that may be destabilizing to Pakistan. Meanwhile, officials, media commentators, and members of the think-tank community in India are discussing the global implications of the simultaneous "emergence of India" and the "rise of China." While underscoring the unique aspect of this twinned emergence of two substantial powers on the global political and economic stage, Indians have also noted that there is no inevitable clash between the two powers.

East Asia

North Korea

We assess that North Korea's artillery strike on Yeonpyeong Island on 23 November was meant in part to continue burnishing successor-designate Kim Jong Un's leadership and military credibility among regime elites, although other strategic goals were also factors in the attack. Kim Jong Il may feel the need to conduct further provocations to achieve strategic goals and portray Jong Un as a strong, bold leader, especially if he judges elite loyalty and support are in question.

Kim Jong Il has advanced preparations for his third son to succeed him, by anointing him with senior party and military positions, promoting probable key supporting characters, and having the younger Kim make his first public appearances. These steps strengthened the prospects for the 27-year old Jong Un to develop as a credible successor, but the succession process is still subject to potential vulnerabilities, especially if Kim Jong Il dies before Jong Un consolidates his authority.

The North has signaled it wants to return to a nuclear dialogue. The North probably wants to resume nuclear discussions to mitigate international sanctions, regain international economic aid, bolster its ties with China, restart bilateral negotiations with South Korea and the United States, and try to gain tacit international acceptance for its status as a nuclear weapons power.

Since 2009, Pyongyang has made a series of announcements about producing enriched uranium fuel for an indigenous light water reactor that it is building at its Yongbyon nuclear complex. In mid November, 2010, the North showed an unofficial US delegation what it claims is an operating uranium enrichment facility located in the Yongbyon rod core production building.

North Korea's conventional military capabilities have eroded significantly over the past 10-15 years due to persistent food shortages, poor economic conditions, inability to replace aging weapons inventories, reduced training, and increased diversion of the military to infrastructure support. Therefore, Pyongyang increasingly relies on its nuclear program to deter external attacks on the state and to its regime. Although there are other reasons for the North to pursue its nuclear program, redressing conventional weaknesses is a major factor and one that Kim and his likely successors will not easily dismiss.

Nevertheless, the Korean People's Army remains a large and formidable force capable of defending the North. Also, as demonstrated by North Korean attacks on the South Korean ship *Cheonan* in March 2010 and Yeongpyong Island in November. North Korea is capable of conducting military operations that could potentially threaten regional stability. These operations provide Pyongyang with what the regime may see as a means to attain political goals through coercion.

China

China's rise drew increased international attention over the past year, as several episodes of assertive Chinese behavior fueled perceptions of Beijing as a more imposing and potentially difficult international actor. Regional concerns about China's strategic intentions have been prompted by its diplomatic support for Pyongyang in the wake of the North's sinking of the *Cheonan* and its artillery attack on Yeongpyong Island; Beijing's efforts to advance its territorial claims in the South China Sea; and its efforts to intimidate Japan during a confrontation over fishing rights near disputed islands last September. Neighboring countries that have long pursued constructive relations with China are now more anxious about Beijing's motives and plans.

China's apparent confidence about its growing influence in Asia and globally is due, first and foremost, to its sustained economic success, and Beijing's perception that this translates into diplomatic clout. In 2010 China continued its relatively rapid recovery from the global financial crisis (growing at over 10 percent, compared to 2.5 percent in the G-7 developed economies, according to IMF statistics), reinforcing its role as a key driver of global economic recovery. In 2010 China surpassed Japan to become the second largest economy in the world. This economic growth facilitated and was complemented by a sustained pace for China's military modernization programs.

In response to international concerns about China's actions, President Hu Jintao has affirmed China's commitment to a peaceful and pragmatic approach to international relations. This has been reflected in authoritative Chinese articles and leadership statements—especially during Hu's visit to Washington in January—and in Beijing's recent efforts to urge restraint on North Korea's behavior.

We remain attentive, however, to the possibility that Beijing's perceptions of its influence and clout could fuel more assertive Chinese behavior, or increase the potential for unintended conflict between China and its neighbors, especially in the maritime realm.

China's external behavior remains inextricably linked to the leadership's overarching concern with maintaining economic growth and domestic stability. Beijing's active pursuit and strong defense of its interests abroad are aimed in part at ensuring access to markets, resources, and energy supplies abroad that are vital to sustaining economic growth and stability at home. Beijing's persistent fears about domestic stability have been reflected in its resistance to external pressure on the value of its currency, repression of political dissent, and strident reaction to the Nobel Peace Prize for jailed democracy advocate Liu Xiaobo.

China's relationship with Taiwan remained stable and positive in 2010, with progress marked by an Economic Cooperation Framework Agreement between the two sides. However, Strait tensions could return if the two sides are unable to sustain progress on economic and political dialogue.

China's ongoing military modernization program began in earnest in the late 1990s, after Beijing observed the threat posed by long-range precision guided warfare in DESERT STORM and the Balkans. China's defense policies—initially aimed at creating credible options to forcibly bring Taiwan under Beijing's authority and developing the corresponding capabilities to prevent US intervention in a cross-Strait conflict—led Beijing to invest heavily in short- and medium-range ballistic missiles, modern naval platforms, improved air and air defense systems, counterspace capabilities, and an Intelligence, Surveillance, and Reconnaissance (ISR) system. For example, the Chinese have recently conducted the first flight test of what we refer to as a fifth-generation fighter, the J-20. We have known about this program for a long time and the flight test was not a surprise. We judge that this event is another indication of China's aspiration to develop a world-class military, and it is a capability we take seriously. But this program, like others in China, will have to overcome a number of hurdles before reaching its full potential.

The Middle East and North Africa

Egypt

The situation in Egypt remains quite fluid. Hosni Mubarak's decision to step down after a 30-year tenure as President has set in motion changes that will have a long-lasting impact throughout North Africa and the Middle East. Egypt has the opportunity to move toward a democracy and we will continue to follow conditions in the country as the political reform takes shape.

Tunisia

In Tunisia, protests fueled by unemployment and government corruption spiraled rapidly, and helped topple the longstanding regime in Tunisia. Protestors have continued to pressure the interim government to include more representation from the opposition and to implement real change in the country. Tunisians are taking pride in their "Jasmine Revolution" and appear determined to prevent any backslide toward the old political order.

Iraq

Iraq will likely sustain a generally secure path through the end of 2011, even as US forces continue to draw down in accordance with the US-Iraq bilateral security agreement. Despite slow progress on political goals, the continuing preference of Iraqi citizens to pursue change through the political process rather than violence is the most important driver supporting this trend. In addition, an erosion of insurgent and terrorist strength, the contributions of the US military and diplomatic corps, and the capacity of the Iraqi Government to deliver security and basic services for Iraq's citizens also will underpin this trend. Other key factors affecting Iraq's political and security evolution through 2011 will be its ability to adapt to external threats and manage and contain conflict.

Iraq's security generally remained stable through 2010. Reported violence remains relatively steady at the lowest sustained level since 2003. Despite periodic high-profile attacks, overall population security has improved, sectarian tensions are subdued, and Iraq's citizens have begun to express guarded optimism about the future.

Al-Qa'ida in Iraq (AQI) will be a persistent security problem, although AQI's manpower and ability to conduct a sustained campaign of attacks are substantially less than at its height in late 2006 and early 2007. AQI will almost certainly continue high-profile attacks in an attempt to reignite sectarian warfare and discredit the Iraqi Government. However, we believe it is unlikely AQI will be able to achieve its larger strategic goals of controlling territory from which to launch attacks, driving US Forces-Iraq from Iraq before final withdrawal in December 2011, and establishing a base for a new caliphate. Violence by armed Sunni and Shia groups also remains at the lowest levels since 2003.

Political and Economic Trends

Protracted government formation negotiations, which were recently completed, reflect the dynamism of Iraqi politics and the complexity of the constitutionally-mandated institutional changes that Iraqis are negotiating. Several key variables will influence Iraq's political, economic, and security evolution over the coming year, including:

- The character and competency of the new government, specifically, the extent to which it is inclusive and capable of effective governance and service delivery, and the degree to which it is authoritarian.
- The pace of progress on key outstanding issues such as control of hydrocarbon resources, revenue sharing, and central versus regional control.
- The stability of oil prices, development of Iraq's non-oil private sector, and Baghdad's ability to attract foreign investment by improving the business environment and upgrading critical infrastructure.
- The influence of and interference by Iraq's neighbors, which probably will include some combination of exploiting a perceived power vacuum and cultivating stronger political and economic ties with Baghdad.

- The US drawdown will press the new Iraqi government to prioritize key issues. It also requires continued US support and a renewed official agreement with the United States, and it will define the future US-Iraq relationship.

Economic trends in Iraq will reinforce the political and security gains we anticipate through 2011, as long as oil prices and production do not fall substantially below current levels. The contracts signed in 2009 and 2010 with 11 international consortiums to expand the development of some of Iraq's largest oil reserves have the potential to create a modest number of jobs over time and increase national income.

Iran

The public protests and elite infighting that followed the June 2009 presidential election posed the greatest internal challenge to the Islamic Republic since the early 1980s. The election crisis has widened splits in the country's political elite and has demonstrated the popular willingness to challenge government authority and legitimacy. Nevertheless, the Iranian regime has stymied opposition activities and should be able to contain new threats from the opposition to its hold on power over the near term.

In reasserting control in the wake of the election, the regime has moved Iran in a more authoritarian direction. Decisionmaking on domestic issues that affect Supreme Leader Ali Khamenei's hold on power will be shaped by ascendant hardliners, including President Mahmoud Ahmadi-Nejad and his allies and officials of the Islamic Revolutionary Guard Corps (IRGC). The regime is unlikely to compromise with the opposition. Since the election Iran has arrested thousands of opposition sympathizers, shut down media outlets, and increased monitoring and control of telecommunications.

- The regime has sought to pressure and ostracize leaders of the Green Path movement, which emerged in response to perceived election fraud. The movement, although weakened, will continue to pose a low-level challenge to the regime, given its ability to tap into the alienation among the middle classes over the election, the government's subsequent violent crackdown, and restriction of civil liberties.
- The regime's increasing reliance on the IRGC to suppress political dissent will allow the Guard to widen its political and economic influence, which has grown over the past two decades.

Despite the regime's reassertion of control, it is vulnerable to renewed challenges because traditional conservatives have been alienated and ideological cleavages between conservatives and hardline factions have widened. In fact, Expediency Council Chairman Ali Akbar Hashami-Rafsanjani, his moderate allies, and other traditional conservatives have responded with increased public criticism of Ahmadi-Nejad and efforts to block his policies.

The election crisis and the most recent round of UN sanctions almost certainly have not altered Iran's long-term foreign policy goals—namely Iranian sovereignty, and the projection of power and influence in the region and the Muslim world. Iranian leaders probably will continue to issue harsh rhetoric and defy the West, but we judge that the need to avoid tougher sanctions and maintain commercial relationships will likely also temper regime behavior.

The Intelligence Community judges Tehran will continue to view the United States as an existential threat and as partly responsible for post-election unrest. Iran will seek to undermine US influence in the Middle East by sponsoring opposition to US initiatives, backing groups that oppose US and Israeli interests, working to undermine cooperation between Washington and moderate Arab allies, and strengthening its deterrent capability against threats from the United States and Israel.

Despite Chinese and Russian support for UNSCR 1929 in June 2010, Iran will continue to view relations with China and Russia as critical to countering Western economic pressure, limiting US influence in the region, and obtaining advanced military equipment. Tehran also is seeking to develop improved political and economic ties with a range of Asian, Latin American, and East European countries to try to offset and circumvent the impact of sanctions.

Yemen

The Republic of Yemen Government is facing the most serious threat to its stability since its 1994 civil war. Confronting myriad political, security, and development challenges, President Ali Abdallah Salih, as of early February, was attempting to retain control over the key levers of power in Yemen. Deterioration of governance will present serious challenges to US and regional interests, including leaving AQAP better positioned to plan and carry out attacks, exacerbating ongoing civil unrest and worsening humanitarian and socio-economic problems. Yemeni security operations continue against AQAP, Huthi insurgents, and southern secessionists, but challenges from these groups remain. Although Yemen's economy has experienced short-term improvement because of relatively high oil prices, the outlook remains poor for the next decade due to the country's declining oil reserves and water resources, lack of economic diversification, widespread corruption, rapid population growth, and high rates of poverty, illiteracy, and unemployment.

Lebanon

Acute political tension in Lebanon over pending indictments against Hizballah for the 2005 assassination of former Prime Minister Rafik Hariri threatens renewed violence in a volatile region. Hizballah in January collapsed the government and acted quickly to install a new one that would end Lebanon's cooperation with the Special Tribunal for Lebanon. This has prompted Sunnis aligned with former Prime Minister Sa'ad Hariri to conduct street protests against Hizballah's power play. Adding to these tensions is uncertainty about the direction of the next government, the fate of the Tribunal, and the potential for localized, small-scale violence to escalate.

In addition, Al-Qa'ida remains interested in using Sunni extremist networks in Lebanon to carry out terrorist operations against US, Western, and Israeli targets in the Levant and abroad. However, al-Qa'ida remains poorly positioned to establish a foothold in the Levant because of organizational shortcomings, disunity among the Lebanon-based Sunni extremist groups, lack of trusted leaders, and strong opposition from local security services.

Africa

Africa in the coming year is likely to continue what is now a decade-long trend of economic and political progress. As in the past, however, this progress is likely to be uneven and subject to sudden reversal. Although Africa has weathered the worldwide economic downturn better than some other

areas of the world, it continues to fall at the bottom of almost all economic and social indicators, a standing unlikely to change in the near term. We assess that many African nations will continue on a trajectory of becoming more democratic, but this process will not be smooth or necessarily lead to political stability in all cases. African elections are likely to continue in many cases to heighten tensions and intensify conflict. Critical votes are scheduled this year in several of Africa's largest and most important states: the referendum on southern secession in Sudan, national elections in Nigeria, and the Democratic Republic of the Congo.

In Niger, the military junta is promising a democratic renewal following a coup d'etat in 2010. Elsewhere, ruling parties and their leaders appear intent on squeezing out any serious political competition; Zimbabwe, Uganda, Rwanda, and Zambia fall into this category. Hotly contested elections in Guinea and Cote d'Ivoire in late 2010 produced winners, but did not mitigate or defuse highly volatile political environments.

Sudan

Sudan in 2011 likely will face a prolonged period of political uncertainty and potential instability. Six years after the signing of the Comprehensive Peace Agreement (CPA) that ended decades of civil war between northern and southern Sudan, the south overwhelmingly voted to break away from Sudan and become Africa's newest independent nation. Although the referendum vote proceeded mostly peacefully and Khartoum has signaled its willingness to recognize the results, a large number of issues remain unresolved, including how Sudan's oil revenues will be divided, the disposition of Sudan's debt burden, citizenship rights, border demarcation, and the status of the disputed province of Abyei. While neither side wants to return to war, we anticipate periodic episodes of violence along the border.

Almost immediately, a newly independent southern Sudan will face serious challenges that threaten to destabilize a fragile, untested, and poorly resourced government, which will struggle to provide security, manage rampant corruption, and provide basic services. The ruling Sudan People's Liberation Movement (SPLM) will have no choice but to turn to the international community, and specifically the United States, for assistance.

The government in Khartoum will face challenges as well as it adjusts to new political and economic environments. The conflict in Sudan's western Darfur region will continue to simmer as a low level insurgency through 2011. Khartoum may be in a better position to address the issues in Darfur after southern secession. However, as long as the north-south tension remains unresolved, we see little prospect that the UN will be able to draw down its peacekeeping force, or that an estimated two million displaced people will be able to return home. Lengthy talks in Doha have failed to produce an agreement between Darfur rebel groups and the Khartoum government. One relatively bright spot in the Darfur conflict is the reconciliation between Sudan and Chad.

Somalia

After two decades without a stable, central governing authority, Somalia continues to be the quintessential example of a failed state. Although the mandate of the current Transitional Federal Government (TFG) expires in August, we see no signs Somalia will escape continuing weak governance in 2011. The TFG and its successor almost certainly will be bogged down by political infighting and corruption. As well, the TFG will face persistent attacks from al-Shabaab and remain

dependent on the presence of approximately 8,000 peacekeepers from the African Union Mission in Somalia (AMISOM) to retain control over sections of Mogadishu.

In 2011, most al-Shabaab members will remain focused on fighting AMISOM, the TFG, and perceived Western interests in Somalia. The July 2010 twin bombings in Kampala suggest some al-Shabaab leaders intend to expand the group's influence in East Africa. We remain concerned that the group also aspires to attack the US Homeland.

Some of al-Shabaab's weaknesses played out publicly in late 2010. Its internal rifts were covered widely in the media and the October execution of two teenage girls was broadly criticized. Al-Shabaab almost certainly will face enduring leadership divisions and public dissatisfaction over harsh tactics, but the TFG is not positioned to capitalize on these vulnerabilities to garner public support.

Nigeria

Nigeria, Africa's most populous nation, will face significant challenges in 2011: conducting national elections, stopping sectarian violence in its Middle Belt, addressing violent Islamic groups in the north, and averting a full-scale return to militancy in its oil region. Presidential and gubernatorial elections are in April, and Abuja is under considerable pressure to ensure that these elections rise above the badly flawed 2007 voting. Political violence has been a significant feature of the last three elections, although so far this season, the level of violence associated with the upcoming voting appears to be lower.

Nigeria's oil rich Niger Delta is a major source of oil for the US outside of the Mideast. Violence and criminality continue to disrupt Nigeria's oil and gas production, albeit at a much lower level since the government's amnesty deal for militants in 2009; corruption still fosters lawlessness and drains funds from development projects. Opportunist and well-armed militias operate as criminal syndicates, selling their services as thugs-for-hire to corrupt politicians kidnapping oil workers for ransom, and attacking oil facilities. Delta militants allegedly set off car bombs in the capital last October, killing 10. Complicating the security picture is Jama'atul Ahlul Sunnah Lidda'awa Wal Jihad (JASLWJ, aka Boko Haram), the northern Muslim extremist group. It is focused on local issues, although it may be pursuing interests it shares with AQIM.

China's engagement with Nigeria is in keeping with China's overall Africa policy, though less pronounced than in other countries of the region, and focused primarily on the construction and trade sectors, and to a lesser extent, oil.

Cote d'Ivoire

The continuing standoff in Cote d'Ivoire carries a high risk of reigniting widespread fighting, both in Abidjan where pro-Gbagbo youth gangs are attacking supporters of Alassane Ouattara and throughout the country where both sides have sizeable military forces. France, Cote d'Ivoire's former colonial power, has military forces stationed in country and the UN maintains a sizeable peacekeeping force. The crisis presents West Africa's premier regional organization, the Economic Community of West African States (ECOWAS), with a significant challenge; its ability to intervene militarily, should it decide as a last resort to do so, will require substantial outside assistance. To date, ECOWAS efforts to craft a political solution to the crisis have encountered intransigence from

Gbagbo. Renewed fighting risks creating new humanitarian crises in Cote d'Ivoire and neighboring countries.

The Democratic Republic of the Congo

President Kabila has been unable to consolidate his control over turbulent Eastern Congo because armed groups, and undisciplined government security forces have operated largely with impunity for many years and have been responsible for numerous acts of violence and human rights abuses. In addition, elements of the Congolese Army are ill-disciplined and continue to prey on the population.

In March 2009, a peace agreement ended the fighting between the Congolese Army and a Congolese Tutsi rebel group, the National Congress for the Defense of the People (CNDP). The CNDP and other militias were absorbed into the Congolese Army. However, they were never fully integrated and have recently threatened to withdraw, claiming that Kinshasa has not fulfilled its promises. In the meantime, the Democratic Forces for the Liberation of Rwanda (FDLR), a Hutu rebel group dedicated to the overthrow of the Tutsi government, has increased attacks on civilians and the Congolese military, primarily in response to a series of military operations targeting the group in an attempt to regain control of mining areas taken from them during the operations.

Kinshasa will be hard pressed to cope with these threats, which could destabilize the Eastern region even further. Meanwhile, in the northeast, military operations are underway to eliminate the threat posed by a Ugandan-led rebel group known as the Lord's Resistance Army (LRA), led by Joseph Kony, which also have attacked villages in the Central African Republic and southern Sudan. National elections in Congo are scheduled for November 2011. Low-level violence surrounding the election may erupt.

West African Transnational Threats

We judge that Al-Qa'ida in the Lands of the Islamic Maghreb will continue to operate and launch limited attacks from isolated safehavens in parts of the fragile, underdeveloped nations in West Africa's Sahelian region—to include Mauritania, Mali, Burkina Faso, and Niger. Although it has only a few hundred men at most in the Sahel, AQIM has been forced to shift its focus away from Algeria and to use hit-and-run tactics to strike military targets and kidnap hostages for ransom in the region. Mauritania's government has waged an aggressive campaign against AQIM, including sending troops across the border into Mali for extended periods. AQIM relies on kidnapping-for-ransom for most of its revenue.

Drug trafficking continues to be a major problem in Africa. 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 vulnerable states in the region. Away from the scrutiny of local and international law enforcement, drug traffickers transport tons of cocaine from Latin America to Europe through West Africa's porous borders, and co-opt government and law enforcement officials.

Russia and Eurasia

Russia

Last year was marked by significant improvements in US-Russian relations. Russia has demonstrated a willingness to cooperate on some top priorities that it shares with the United States, such as signing the New START Treaty, cooperating on transit and counternarcotics in Afghanistan, and pursuing the pressure track against Iran's nuclear program. Other encouraging signs include Russian interest in discussing missile defense (MD) cooperation with the United States and NATO, talks on modernizing the Conventional Armed Forces in Europe Treaty, and progress on Russian accession to the World Trade Organization (WTO).

At the same time, policy disagreements persist. Some Russian elites still express suspicion that MD is ultimately directed against Russia. Russia shows no willingness to discuss the status of—much less withdrawal of its troops from—South Ossetia and Abkhazia, contested territories inside Georgia's internationally-recognized borders. Despite the fact that Russia has moved closer to membership in the WTO, some Russian officials and key lobbies have lingering doubts the move is in their interests.

Russia continues to influence domestic politics in other former Soviet republics, most recently in Belarus. Russia's concern is not with human rights or democracy but rather with the fact that Belarus's authoritarian leader Aleksandr Lukashenko routinely resists bending to its will. In Ukraine, Russian officials have been eager to engage and promote Russian interests through the Moscow-friendly government there.

The direction of Russian domestic politics is a major unsettled question for 2011 and 2012. President Medvedev's call for "modernization" has sparked a debate among the Moscow elite—and on the blogosphere—about whether modernization is possible without political liberalization. Prime Minister Putin meanwhile has spoken forcefully against significant changes in the existing political order. In 2010, Russia saw a number of spontaneous protests, in part against unpopular government actions but also of a more nationalist bent. Opposition parties' popular support remains very weak.

The Russian economy has recovered from the 2008-2009 crisis and has returned to growth. However, the Russian leadership admits it will not repeat the rapid growth of the previous decade. The government has pledged to undertake new social programs and spend more on infrastructure and defense, which will challenge its ability to close the non-oil fiscal deficit.

The Russian Government is approaching the December 2011 Duma and March 2012 presidential elections having announced plans to increase resources devoted to address domestic problems and deal with the persistent security challenge in the North Caucasus. Popular and elite support for the existing political order appears strong enough to withstand these problems, at least in the short-term.

Putin and Medvedev indicate that the decision about who will be president hinges primarily on an arrangement between them. Both have shown interest in running.

Assessing Russia's Military

Russian military programs are driven largely by Moscow's perception that the United States and NATO are Russia's principal strategic challenges and greatest potential threat. Russia's nuclear forces support deterrence and enhance Moscow's geopolitical clout. Its still-significant conventional

military capabilities, oriented toward Eastern Europe, the Caucasus, Central Asia, and the Far East, are intended to defend Russia's influence in these regions and serve as a "safety belt" from where Russian forces can stage a defense of Russian territory.

High-profile but small-scale operations in the Atlantic, Caribbean, Mediterranean, and Indian Ocean, in part, represent traditional peacetime uses of naval forces to "show the flag" and convey that Moscow remains a significant military power.

Russia's ambitious military development plan announced in fall 2008 aims to field a smaller, more mobile, better trained, and modernized force over the next decade. This plan represents a radical break with historical Soviet approaches to manpower, force structuring, and training.

Moscow's military development poses both risks and opportunities for the United States and the West. Increased Russian capabilities and a strategy of asymmetric and rapid response raise the specter of a more aggressive Russian reaction to crises perceived to impinge on Moscow's vital interests. Moscow's wariness of the potential for Western involvement on its periphery, concern about conflicts and their escalation, and military disadvantages exacerbated by a drawn out crisis or conflict place a premium on quick and decisive action. However, as the Russian military continues its post-Soviet recovery and Moscow feels more comfortable asserting itself internationally, Russian leaders may be more inclined to participate in international peacekeeping operations.

The Caucasus and Central Asia

The unresolved conflicts of the Caucasus and the fragility of some of the Central Asian states provide the most likely flashpoints in the Eurasia region. Moscow's continued military presence in and political-economic ties to Georgia's separatist regions of South Ossetia and Abkhazia, combined with Georgia's dissatisfaction with the status quo, account for some of the tensions. Georgia's public efforts to engage with various ethnic groups in the Russian North Caucasus have also contributed to these tensions.

Georgia's new Constitution strengthens the office of the Prime Minister after the 2013 presidential election. President Saakashvili has not indicated his future plans but the option is available for him under the new Constitution to serve as Prime Minister.

The frozen Nagorno-Karabakh conflict is also a potential flashpoint. The Azerbaijan government seems satisfied with the stalled Turkey-Armenia rapprochement, but President Aliyev is seeking to focus Western attention on Azerbaijani interests at the expense of Armenia. Heightened rhetoric and distrust on both sides and violent incidents along the Line of Contact throughout last summer increase the risk that minor military exchanges could lead to miscalculations that could escalate the situation with little warning.

As the US increases reliance on Central Asia to support operations in Afghanistan, the region's political and social stability is becoming more important. The overthrow of the Kyrgyzstani Government last April and the subsequent ethnic violence in the country's south attest that instability can come with little warning in parts of Central Asia. While Kyrgyzstan successfully held a parliamentary election, many underlying grievances have not been resolved and the possibility of episodic, retaliatory violence cannot be excluded.

Kyrgyzstan's and Tajikistan's abilities to cope with the challenge of Islamic extremism—should it spread from Pakistan and Afghanistan—represent an additional cause for concern. In 2010, Tajikistan's President Rahmon was forced to negotiate with regional warlords after failing to defeat them militarily, an indicator that Dushanbe is potentially more vulnerable to an Islamic Movement of Uzbekistan with renewed interests in Central Asia.

Europe

The Balkans

Events in the Western Balkans will again pose the principal challenges to stability in Europe in 2011. Bosnia-Herzegovina's continuing uneasy inter-ethnic condominium and unresolved issues regarding Kosovo, including the future of Serb-majority areas in northern Kosovo, Belgrade's efforts to re-open the question of Kosovo's status, and Pristina's weakness in rule of law and democracy remain sources of tension requiring Western diplomatic and security engagement.

Bosnia's multi-ethnic state institutions are in disarray. While neither widespread violence nor a formal split is likely, we judge that ethnic Serb rhetoric about seceding from Bosnia will continue to inflame passions. Ethnic agendas still dominate the political process, and wrangling among the three main ethnic groups impedes the process of building institutions. Renewed US-EU efforts to broker compromises on constitutional reforms and other agreements needed to advance Bosnia's NATO and EU membership prospects have met with little success thus far.

More than 70 nations, including 22 of 27 EU members, have recognized the state of Kosovo. However, in the coming years Pristina will remain dependent on the international community for economic and development assistance, as well as for diplomatic and military presence to foster further consolidation of its statehood. Kosovo's institutions remain weak, and crime and corruption are rampant. Belgrade openly supports parallel Kosovo Serb institutions. Serbia has used political and diplomatic means to challenge Pristina's independence. NATO's presence, although reduced, is still needed to deter violence, and its mentoring of the fledgling Kosovo Security Force is crucial to the force's effectiveness and democratic development.

Serbia's leaders espouse a European future and President Tadic desires quick progress toward EU membership, but at the same time they are unwilling to abandon Belgrade's claim to Kosovo to achieve that end. Serbia has increased cooperation with NATO, but maintains it will not actively seek membership in the next few years.

Latin America and the Caribbean

In Latin America, recent positive trends, such as deepening democratic principles and economic growth, are challenged in some areas by rising narco-violence, populist efforts to limit democratic freedoms, and slow recovery from natural disasters. Initiatives to strengthen regional integration offer greater opportunities for key countries—such as Venezuela and Brazil—to try to limit US influence, but are hampered by ideological differences and regional rivalries. Relations with Iran

offer a few Latin American governments a means of staking out an independent position on a key international issue, while also attempting to extract financial aid and investment for economic and social projects.

The drug threat to the United States emanates primarily from the Western Hemisphere: the overwhelming majority of drugs now consumed in the United States are produced in Mexico, Colombia, Canada, and the United States. Patterns in drug marketing and trafficking create conditions favorable for a continuation of this trend.

Strong US demand for illicit drugs is the principal driver of the flow of foreign-produced drugs to the United States, still the world's most significant drug market.

Mexico

President Calderon's ambitious effort to combat Mexico's powerful drug cartels—now in its fifth year—has achieved some important successes, but faces enormous challenges. Calderon is pursuing a multi-faceted strategy to eliminate the cartels' leadership and dismantle their networks, reform his country's judicial system, modernize its police forces, battle corruption, and address Mexicans' social needs.

Mexican efforts to grind down the cartels' leadership have produced solid results. Since 2009, four of the government's top eight cartel leaders have been captured or killed and 18 of the 37 "most wanted" traffickers, as identified by Mexican officials, have been arrested or killed. Elite military and federal police units are demonstrating greater prowess in intelligence-driven operations, which disrupt trafficking operations and create fissures in the trafficking groups' organizational structures. Mexican security forces are also seizing drugs, weapons, and trafficker assets. The authorities' confiscation in October 2010 of 134 metric tons of marijuana in October was one of the largest seizures on record.

Despite those gains, Mexico's overall military and police capabilities remain inadequate to break the trafficking organizations and contain criminal violence. Calderon is pressing ahead with institutional reforms to strengthen the rule of law, but progress is slow because of resource constraints, competing political priorities, and bureaucratic resistance. The Mexican Congress recently passed a law to toughen penalties in kidnapping cases, and is considering legislation governing military activity, and money laundering. Judicial reforms were passed in 2008, but they are complex and the law provides an eight-year window for implementation.

Mexico is facing sharp and steady escalation of criminal violence as these same powerful drug cartels fight within and among themselves for dominance and seek to intimidate the government and population. Cartels have sought to lower public confidence in the government and demonstrate their contempt for the law by broadcasting more savage acts such as beheadings, public executions, and an overall change in brutality. According to Mexican Government statistics, drug-related murders have risen from 2,489 during 2006—the year Calderon initiated his counterdrug policy—to over 15,000 in 2010.

Most of this violence is a result of inter-cartel violence to control smuggling routes within Mexico, to include crossing points along the US-Mexican border, and continued rivalry to eliminate competitors. Additionally, the effectiveness of Calderon's anti-cartel campaign has frustrated cartel

leadership, leading to an increase in violence directed toward Mexican law enforcement and military units. Civilians are increasingly caught in the crossfire. While public support for Calderon's crackdown on drug trafficking organizations remains strong, rising violence is taking a toll on the public's opinion of the government's ability to defeat the trafficking organizations.

We see no signs that trafficker leaders have, as a matter of strategy, decided to systematically attack US officials in Mexico. The collateral threat to US personnel remains real, however, and the threat environment for US personnel in Mexico could worsen if the cartels conclude that US assistance is instrumental to any pronounced improvement in Mexican counterdrug efforts.

Venezuela

President Hugo Chavez's hold on power remains secure, despite his party's lackluster performance in the National Assembly elections in September 2010. Opposition parties picked up enough seats to deny him the supermajority he sought to maintain his ability to pass some major laws and make executive and judicial appointments unimpeded. Yet the passage of an "enabling law" by the National Assembly in December allows him to rule by decree for 18 months. Chavez's mismanagement of the Venezuelan economy and spiraling crime rates account at least partly for the electoral setback.

Chavez in the coming year will struggle to improve his country's poor economic performance. Venezuela currently suffers from nearly 30 percent inflation and negative growth. Chavez in early 2010 ordered the currency devalued, but the short term boost in government purchasing power has long since dissipated. Consequently, Caracas on 1 January eliminated a preferential rate used for food and medicine to ease the country's budget deficit.

Facing an energized opposition in the coming year, Chavez may have to deal with more popular protests over his continued push to implement "21st Century Socialism." At the end of the legislature's lame duck term, Chavez and his allies passed legislation that gives more resources to his loyal community councils, allowing Chavez to claim that he is both bolstering participatory democracy and creating new means of funneling resources to supporters.

Cuba

The continued deterioration of Cuba's economy in 2010 has forced President Raul Castro to take unprecedented and harsh economic actions that could spark public unrest over the coming year. Havana announced last September that it will lay off 500,000 government employees by spring, with another 500,000 to follow. The government employs about 85 percent of the total work force of 5.1 million. In a probable attempt to consolidate his reforms, Castro is planning a Party Congress for April, the first in 14 years.

The economic situation is dire. Major sources of foreign revenue such as nickel exports and tourism have decreased. Moreover, a decline in foreign currency reserves forced dramatic cuts to imports, especially food imports, and we have seen increases in the price of oil, food, and electricity. As a result, Havana has become even more dependent on subsidized oil shipments from Venezuela and earnings from over 40,000 health workers, teachers and advisers in that country. We doubt that the Cuban economy can quickly absorb all the dismissed state workers given the many bureaucratic and structural hurdles to increased private sector employment.

There is little organized opposition to the Cuban Government and Cuba's security forces are capable of suppressing localized public protests, although a heavy-handed Cuban putdown of protests could spark wider discontent and increased violence which could lead to a level of political instability.

Haiti

Stability in Haiti remains heavily dependent on the support of the international community in the wake of the devastating January 2010 earthquake, the cholera epidemic that began in October 2010, and the current political crisis. The Haitian Provisional Electoral Council's announcement that the ruling party candidate had barely edged out a popular musician for second place during the first round of recent Haitian elections sparked additional protests and violence. Prospects for more unrest remain in view of the runoff election having been delayed, an Organization of American States report suggesting that the ruling party candidate did not qualify for the runoff, the recent return of former Haitian dictator Jean Claude-Duvalier, subsequent press accounts speculating that former President Aristide might also return to Haiti, and uncertainty over how Haitian officials will handle the constitutionally-mandated February date for transition of power.

More than a year after the earthquake over one million Haitians remain in nearly 1,200 temporary settlement camps, mainly around the capital Port-au-Prince. Recovery and reconstruction efforts have been slow and will take many more years. Haitians for the most part have patiently and stoically responded to these challenges, although protests have spiked in relation to the referenced elections. Efficient and timely investment of the nearly \$10 billion in assistance pledged by the international community for Haiti's reconstruction efforts over the next five years will be key to maintaining social and political calm.

Regional Dynamics

Regional efforts that lessen US influence are gaining some traction. Planning proceeds for the creation of a community of Latin American and Caribbean States—slated for inauguration in Caracas in July—that excludes the US and Canada. Organizations such as the Union of South American Nations (UNASUR) are taking on issues once the purview of the OAS. Indeed, South American countries, with one or two exceptions, increasingly are turning to the UNASUR to respond to disputes or unrest in the region.

Competing ideologies and regional rivalries will limit the effectiveness of these institutions. Moderate leaders in Chile, Colombia, and Panama often pursue different policies than Venezuela and other like-minded nations, such as Ecuador and Bolivia in these organizations. Caracas and the ALBA allies can rally block support to stymie consensus within the OAS, but deteriorating economic conditions in Venezuela and Chavez's declining popularity at home and abroad have limited his ability to exert influence beyond his core group of allies.

Brazil's economic success and political stability have set it on a path of regional leadership. Brasilia is likely to continue to use this influence to emphasize UNASUR as the premier security and conflict resolution mechanism in the region at the expense of the OAS and of bilateral cooperation with the United States. It also will seek to leverage the organization to present a common front against Washington on regional political and security issues.

Iranian Inroads

Iran continues to reach out to Latin America as a way to diminish its international isolation and bypass international sanctions. So far, Iranian relations with Latin America have only developed significantly with leftist governments that oppose US leadership in the world, particularly Venezuela, Bolivia, and other ALBA members, as well as with Brazil. Bilateral cooperation between Iran and Venezuela has deepened in the areas of diplomacy and defense and to a more limited extent on energy, and trade since Ahmadi-Nejad took office in 2005. Most moderate governments have responded coolly to Tehran outreach, although an increasing number of Iranian embassies are attempting to spread Iranian influence in Latin America. We expect Tehran to continue offering economic and other incentives to try to expand its outreach. Diplomatic efforts between Brazil and Tehran have dovetailed with an expansion of bilateral trade and investment, while Bolivia and Ecuador have deepened their relations with Iran in hopes of extracting financial aid, investment, and security technology and expertise.

Intelligence Threats and Threats to US Technological & Economic Leadership

Intelligence Threats

It is difficult to overstate the importance of counterintelligence to U.S. national security. The United States remains the highest priority intelligence target for many foreign intelligence services, and we continue to face a wide-range of foreign intelligence threats to our political, military, economic, and diplomatic interests at home and abroad.

In addition to the threat posed by state intelligence services, the intelligence capabilities and activities of non-state actors are increasing in scope and sophistication. And, the cyber environment provides unprecedented opportunities for adversaries to target the US due to our reliance on information systems.

The spectrum of threats includes espionage, cyber intrusions, organized crime, and the unauthorized disclosure of sensitive and classified US Government information, a notable recent example being the unlawful release of classified US documents by WikiLeaks. While the impacts of the WikiLeaks disclosures are still being assessed, we are moving aggressively to respond by protecting our information networks with improved CI analysis of audit and access controls, improving our ability to detect and respond to insider threats—while balancing the need to share information—and increasing awareness across the U.S. Government to the persistent and wide-ranging nature of foreign intelligence threats.

Far-Reaching Impact of the Cyber Threat

The national security of the United States, our economic prosperity, and the daily functioning of our government depend on a dynamic public and private information infrastructure. This

infrastructure includes computer networks and systems, telecommunications and wireless networks and technologies that carry data and multimedia communications, along with control systems for our power, energy distribution, transportation, manufacturing, and other infrastructures. This information structure will also include new innovations such as the "Smart Grid" for intelligent production, distribution, and use of electric power.

We are also undergoing a phenomenon known as "convergence," which amplifies the opportunity for disruptive cyber attacks, including against physical infrastructures. This phenomenon means that the same networks and devices are processing a full range of data and support a full range of applications, from banking to social networking, from supply chain management to patient health records. This convergence adds much convenience, but it poses new security challenges across a swath of our government and economy.

As we expand our ability to create and share knowledge, maintain our society and produce economic goods, we are developing new vulnerabilities and enabling those who would steal, corrupt, harm or destroy public and private assets vital to our national interests. In the past year, we have seen a dramatic increase in malicious cyber activity targeting US computers and networks; almost two-thirds of US firms report that they have been the victim of cybersecurity incidents or information breaches, while the volume of malicious software ("malware") on American networks more than tripled from 2009.

- Industry estimates that the production of malware has reached its highest levels, with an average of 60,000 new pieces identified per day. Almost half of all US computers have been compromised, according to another industry survey. This current environment favors those who desire to exploit our vulnerabilities with the trend likely getting worse over the next five years because of the slow adoption of defensive best practices and rapid advances in offensive vulnerability discovery and exploitation.
- In April a large number of routing paths to various Internet Protocol addresses were redirected through networks in China for 17 minutes due to inaccurate information posted by a Chinese Internet Service Provider. This diversion of data would have given the operators of the servers on those networks the ability to read, delete, or edit e-mail and other information sent along those paths. This incident affected traffic to and from U.S. Government and military sites, including sites for the Senate, the Army, the Navy, the Marine Corps, the Air Force, and the office of the Secretary of Defense, as well as a number of Fortune 500 firms.
- The complex, global nature of our information technology supply chain can hide many risks. Such vulnerability was demonstrated by employees at a US firm who were convicted for supplying counterfeit computer hardware to U.S. government, military, and private sector customers.
- We are seeing a rise in intellectual property theft. Last year some of our largest information technology and defense contractor companies discovered that throughout much of 2009 they had been the targets of a systematic effort to penetrate their networks and acquire proprietary information. The intrusions attempted to gain access to and potentially modify the contents of source code repositories, the intellectual 'crown jewels' of most of these companies.
- Our identities are increasingly vulnerable. Cyber criminals are stalking prospective victims on social networking sites, acquiring personal information to tailor 'spear phishing' emails to gather

more information that can be used to facilitate identity theft. They are intercepting messages exchanged by mobile devices to validate transactions, and masquerading as their victims to steal funds from their bank accounts. Further, the consolidation of data captured in emails, social networks, Internet search engines, and geographic location of mobile service subscribers increases the potential for identification and targeting of government personnel by criminals, or by intelligence organizations.

In the last year, we have witnessed the emergence of foreign military capabilities in cyber space. This formalization of military cyber capabilities creates another tool that foreign leaders may use to undermine critical infrastructures that were previously assumed secure before or during conflict. The IC is reaching out to the private sector to ensure current understanding of the dynamic cyber environment. More government-private sector and international cooperation is still required across the cybersecurity landscape.

International Organized Crime

In the last two decades, globalization has internationalized once regional or local organized crime. International organized crime (IOC) quickly has taken advantage of the Internet, cellular telephones, and other forms of rapid communication that have revolutionized commerce. Many of the Soviet successor states have serious organized crime problems. Elsewhere, the nexus between weak and failing states and organized crime is growing. Parts of the world with smuggling routes or drug production zones—such as the Balkans, West Africa, the Horn of Africa, Southwest and Southeast Asia, Mexico, and other parts of Latin America—are prone to high levels of illicit activity.

In the past, international organized crime groups largely were formed around criminal syndicates that featured rigid lines of authority and controlled economic or geographic turf. Today, many international criminal organizations are loose networks of individuals or groups that operate independently and cooperate on an ad hoc basis sharing expertise, skills, and resources. International criminal organizations are targeting US businesses, consumers, and government programs. IOC is increasing its penetration of legitimate financial and commercial markets, threatening US economic interests, and raising the risk of damage to the global financial system. Increasingly, international organized crime groups are involved in cyber crime, which costs consumers billions of dollars annually, while undermining global confidence in the international financial system.

Terrorists and insurgents increasingly will turn to crime to generate funding and acquire logistical support from criminals, in part because of US and Western success in attacking other sources of their funding. Terrorists and insurgents prefer to conduct criminal activities themselves; when they cannot do so, they turn to outside individuals and criminal service providers. Involvement in the drug trade by the Taliban and the Revolutionary Armed Forces of Colombia (FARC) are critical to the ability of these groups to fund attacks.

IOC penetration of governments is undermining the rule of law, democratic institutions, and transparent business practices. The growing reach of IOC networks is pushing them to seek strategic alliances with state leaders and foreign intelligence services, threatening stability and undermining free markets. The nexus in Russian and Eurasian states among some government officials, organized crime, intelligence services, and big business figures enhances the ability of state or state-allied actors to undermine competition in gas, oil, aluminum, and precious metals markets.

Export Controls and Economic Imbalances

Export Controls

The US faces increasing challenges in protecting sensitive technology from technologically competent parties, including nation-states, terrorists, and international criminal syndicates given the pace of technological diffusion across the globe. With the increase in technological development overseas, the multilateral export control regimes will need to identify and adapt to innovations and technological breakthroughs quickly or risk losing control of sensitive and potentially dangerous technologies.

Uneven Economic Recovery

Potential threats to economic security may result from the large imbalances in international trade and investment flows. Outstanding disagreements about how to address imbalances may cloud prospects for effective cooperation in international trade and finance and may create frictions that potentially can impede collaboration on a variety of difficult strategic issues.

Current account imbalances across the globe tended to widen last year. Deficits in 2010 grew in the US and most of the EU, while surpluses grew larger in China, Germany, Russia, and Japan. A number of countries continued to accumulate large amounts of foreign exchange reserves in 2010, including China and Russia, and a number of East Asian countries. These market interventions limited the degree of rebalancing that could have been facilitated by more significant exchange rate adjustments.

The disparity between robust growth in emerging economies and irregular expansion in advanced industrial countries was striking last year. China achieved near double-digit growth, with a powerful rebound of exports, brisk domestic economic activity, and a sharp climb in imports. This activity stimulated output expansion across Asia and to export powerhouses like Germany, as well as to commodity producers in Latin America and elsewhere. In contrast, economic recovery in major industrial countries of Europe and in Japan was well below typical rates of growth in prior business cycle upturns. By comparison, for emerging markets as a whole, real GDP at the end of 2010 was 7 percent higher than a year ago. Only one sizable emerging market, Venezuela, registered a drop in real GDP last year.

The major drag on economic activity in Europe stemmed from a sudden, and largely unexpected, financial crisis that made it impossible for several European countries to access the capital markets to fund government fiscal requirements. The most severely affected countries were Greece and Ireland, with partial spillover onto Portugal and Spain. As a result, fiscal austerity, including constricted military outlays, will be the rule throughout Europe for years to come.

In the midst of a global financial meltdown and the 2008-2009 recession, economic policy coordination across a wide spectrum of issues was attainable for leaders of the Group of 20 countries. A start was made in harmonizing financial regulatory reforms that promise to strengthen bank capital and liquidity positions of major financial institutions, but many

unresolved technical issues remain. The leaders of the G20 tasked the IMF to explore ways to identify through objective indicators unwelcome imbalances.

Expansion Centers on the Emerging Markets

Emerging market financial authorities are disinclined to raise domestic interest rates materially. They did not want to encourage even greater inflows of foreign capital, which were already putting unwanted upward pressure on their exchange rates, potentially eroding export competitiveness.

Most forces behind this massive movement of financial capital are generally positive, such as growing investor confidence in emerging markets, host government support for private enterprise, and sensible fiscal and monetary policies. But if risk assessments turn out to be faulty, there could be an abrupt reversal of capital movements that would destabilize economies and governments.

So far, serious inflation pressures have not materialized, but consumer prices have started to rise more quickly in China and Brazil, among others, suggesting that tightening of monetary and credit policies will likely be required in the coming year or two. As domestic interest rates turn upward, emerging market countries may impose controls on capital inflows to insulate their currencies from market forces.

China has been especially active in using a range of tools to influence the economy, beyond recalibrating interest rates. Its credit policies, for example, fueled a burst in domestic construction activity and a sharp run-up of real estate prices. During 2010, authorities responded with steps to prevent a speculative bubble, while maintaining an accommodative policy stance. China had strong growth in both exports and imports in 2010 and ended the year with a current account surplus exceeding 5 percent of GDP. Other countries with strong external positions in 2010 included Singapore, Malaysia, Taiwan, and Russia.

European Debt Crisis

Government and European Central Bank officials decided that the crisis threatened to spread to other euro members (notably Ireland, Portugal, and Spain), jeopardizing the viability of the common currency. In response, the EU in coordination with the IMF put together a euro 750 billion (\$1 trillion equivalent) financing facility, the European Financial Stability Fund (EFSF), to provide financing to countries unable to tap normal sources of credit.

Greece was the initial recipient. For a time, the introduction of the EFSF facility calmed financial market fears of contagion to other euro members. Additional pressures came to the forefront last fall, when doubts about Ireland's banking system generated heavy selling of Irish government securities. While these are relatively small EU countries and the cost of the rescue programs was manageable for the EU, the financial capacity of the EU would be strained if additional, and larger, countries need similar backing.

Market participants have focused on Portugal as the next country that might require support. There are fears that Germany may insist that bondholders accept losses as a precondition for German participation in future bail-outs under the EFSF. As European unity is shaken by different philosophies on how to deal with member-government financing problems, the capabilities of the

NATO alliance will also face strains as deficit countries are compelled to make painful cuts in government outlays, including for defense.

Threats to Space Systems

Growing global use of space—along with the effects of structural failures, accidents involving space systems, and debris-producing destructive antisatellite tests—has increased congestion in space. The probability of radiofrequency interference has grown as the demand for bandwidth increases and more transponders are placed in service. Growing space congestion, if unchecked, will increase the probability of mishaps and contribute to destabilization of the space environment. The IC is supporting interagency efforts to engage the international community to address congestion, develop transparency and confidence-building measures, enhance space situational awareness, and foster greater information sharing. We are also working to explore deterrence options and assess their effectiveness against potential adversaries, as well as protect vital US space capabilities, improve our capability to attribute attacks, and provide adequate indications and warnings.

Resource Issues

Global Energy Security Challenges

Global oil and natural gas markets have parted company in the past couple of years as a result of structural changes that will likely have a profound impact on both producers and consumers for years to come. Oil markets came into rough balance during 2010. Natural gas markets are continuing to adjust to the combination of a wholesale reassessment of medium-term price trends, following the expansion of liquefied natural gas capacity and the rapid development of shale gas reserves in the United States. These significant domestic shale gas reserve finds over the past decade may eliminate the need for the US to import liquid natural gas (LNG) to meet domestic gas demand. Successful future exploitation of the shale gas reserves does, however, come with a number of caveats. Increasing vocal opposition to hydraulic fracturing may lead to a reassessment of permitting domestic shale gas extraction and thus force natural gas prices higher over the longer term.

Oil producers are moving forward on some of the projects postponed in late 2008 as a result of the expectation that demand for crude oil and refined products will continue to expand as a nascent global recovery takes hold. It is still unclear if future production levels will be able to meet expected demand growth, especially in China and other large emerging market economies. We therefore see a continuing threat of a return to heightened price volatility throughout the remainder of the decade.

Domestic natural gas production is increasing in many areas with existing production, as well as in a number of new or rapidly expanding regions. Technological breakthroughs have boosted US production of shale gas, allowing LNG intended for the US market to be routed to Europe, China, and other net importers of gas. The main obstacle to even greater gas supply availability is the lack of pipeline delivery capacity from land-locked areas such as Central Asia, particularly in Azerbaijan and Turkmenistan.

Despite Europe's continued dependency on Russian gas supplies, lower demand, higher gas storage levels, a growing LNG trade, and new pipelines linking national networks are working in the continent's favor. Russian exporters have in a few instances been willing to liberalize oil-indexation price formulas to retain business. European countries continue to work toward longer-term plans to expand pipeline connections to gas producers in the Caspian, Middle East and North Africa. Russia has begun construction on a pipeline to bypass Ukraine to the north and is working on plans for a southern bypass. However, Central and Southeastern Europe remain heavily dependent on Russian natural gas supplies, which currently meet about two-thirds of their gas needs.

Growing Water Scarcity Issues

More than 260 river basins are shared by two or more countries. The growing pressure generated by growing populations, urbanization, economic development, and climate change on shared water resources may increase competition and exacerbate existing tensions over these resources. Greater cooperation and coordination to manage these shared resources will be critical to meeting human and development needs. Governing institutions in the developing world often fail to understand water challenges or make the necessary difficult political and economic decisions to correct deficiencies in water quality and quantity for human consumption, agriculture, or industry. Rapidly changing environmental conditions (e.g., large scale shifts or increases in hydrological variability), political shifts, and/or unilateral development increase the likelihood of conflict over shared water within a basin. Sound institutions that provide a means for raising and addressing concerns reduce the likelihood that disagreements/conflicts will become violent. These range from local-level water user associations to formal intergovernmental basin commissions.

In the absence of mitigating action, fresh water scarcity at local levels will have wide-ranging implications for US national security. This scarcity will aggravate existing problems—such as poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions—and thereby threaten state or regional stability. A whole-of-government approach—using the best modeling expertise from agencies outside the IC—will be needed to assess the impact of water and other resource scarcity on state stability.

Strategic Health Threats

It is unlikely that any country will be able to detect cases early enough to prevent the spread of another new, highly transmissible virus should one emerge during the next five years, despite pandemic preparedness efforts by the World Health Organization (WHO) and many nations over the past decade. Once such a disease has started to spread, confining it to the immediate region will be very unlikely. Preparedness efforts such as the stockpiling of medical countermeasures will be critical to mitigating the impact from a future pandemic. Governments in much of Asia, the Americas, and Western Europe perceived pandemics as a serious threat, and their preparedness efforts helped them lessen the impact of the 2009-H1N1 pandemic. These nations are likely to apply the lessons they learned; however, tight budgets over the next few years will limit further improvements in preparedness and may cause some countries to backslide. In contrast, many countries in Sub-Saharan Africa and Eastern Europe did not prepare at all and even though they

understand the threat, are unlikely to emphasize preparedness in the future because of a lack of institutional capacity and resources. This is particularly true in Africa.

Cholera and other diarrheal diseases are easily treatable and containable. Yet the epidemics that followed the 2010 earthquake in Haiti and the flooding in Pakistan devastated already vulnerable populations. Although the US and many other nations and international and non-governmental organizations (NGOs) answered the call for assistance in these cases, the magnitude of the challenges during catastrophic disasters initially overwhelmed national response capabilities and international support. These events challenge not only the lives and livelihood of ordinary citizens, but also the legitimacy of governments. They also challenge our ability to coordinate US and international responses effectively.

In general, we have also seen a waning global commitment to immunization, resulting in a resurgence of vaccine-preventable diseases, particularly polio and measles. This is due in part to the deterioration in many developing countries' health systems because of lack of funding and shortages of trained healthcare workers. Declining health indicators are a harbinger of a nation's inability to protect and promote domestic stability and security, and also pose a significant security risk on regional and global levels.

Non-Western Health Diplomacy on the Rise

In response to catastrophic events and other challenges, we see a growing proliferation of state and non-state actors providing medical assistance to reduce foreign disease threats to their own populations, garner influence with affected local populations, and project power regionally. These efforts frequently complement US-led initiatives and improve the health of the targeted population in the short term. However, in some cases, countries use health to overtly counter Western influence, presenting challenges to allies and our policy interests abroad over the long run. In other cases, governments have hindered the delivery of assistance to their own populations for political reasons.

- Iran in recent years has expanded its sphere of influence by providing health assistance and building hospitals in neighboring Iraq and Tajikistan, as well as a growing list of other countries, including Bolivia, Nicaragua, and Guyana.
- China's deployment of a field hospital and Chinese International Search and Rescue teams to Pakistan, humanitarian assistance and disaster relief operations in Haiti in 2010, and the goodwill mission of China's Peace Ark Medical Ship to East Africa represent the beginning of a more substantial health diplomacy mission to improve its image as a responsible global partner.

In last year's threat assessment, the IC noted that extremists may take advantage of a government's inability to meet the health needs of its population, highlighting that HAMAS's and Hizballah's provision of health and social services in the Palestinian Territories and Lebanon helped to legitimize those organizations as a political force. This also has been the case with the Muslim Brotherhood in Egypt.

Conclusion

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

Chairman FEINSTEIN. And yours is the only statement?

Director CLAPPER. Yes, ma'am.

Chairman FEINSTEIN. All right. I'll begin the questions.

I wanted to ask you a couple of questions about the Muslim Brotherhood. How committed is it to the Egyptian-Israeli peace agreement?

Director CLAPPER. That's a hard question to answer, Madam Chairman, because of the factors I outlined about the heterogeneity, if you will, of the Muslim Brotherhood. I would assess that they're probably not in favor of the treaty. That I think, though, will be one voice in the emerging political milieu in Egypt, since they have indicated they want to form a political party and that will be one voice.

I think it is also worthy to note that the SCAF—the Supreme Council of the Armed Forces—has reaffirmed its commitment to, actually, all treaty commitments, and particularly the Egypt-Israel peace treaty.

Chairman FEINSTEIN. What, to the best of the intelligence community's knowledge, is the position of the Muslim Brotherhood on stopping weapons smuggling into Gaza?

Director CLAPPER. Again, I don't know that there is a stated position of the Muslim Brotherhood on this issue. I would surmise they're probably supportive of that. But again, it's hard to, at this point, point to a specific agenda of the Muslim Brotherhood as a group.

Chairman FEINSTEIN. What is its position with respect or relationship with respect to Iran?

Director CLAPPER. That too remains to be seen. I think Iran, of course, would like to exploit the situation—not only in Egypt, but elsewhere in the region which are undergoing some upheavals. And I think what that relationship would turn out to be, again, it remains to be seen and we're certainly going to watch for that.

Chairman FEINSTEIN. The reason I asked these questions is because, you know, in the various television coverage there's been a lot of commentary to the fact, well, the Muslim Brotherhood really only represents about a third of the people.

Well, when you don't have a wide spectrum of political parties, a third of the people is a lot of people—any of us could tell you that. You really take seriously any opponent that represents a third of a constituency.

And I think it's been passed off as, well, it's secular and it wants a secular government. And I think from an intelligence perspective it is critical that we know what is that position and what is apt to happen. Egypt is the key country in the Middle East, and I worry about that.

Director CLAPPER. Well, we share your concern, Madam Chairman, and this is obviously something we're going to watch. We're going to have to step up our observation. We're going to have to see how the constitutional reform effort unfolds. At least one of the members of the constitutional reform committee does represent the Muslim Brotherhood, so they will be participating in that process. So as that unfolds, obviously we're going to be watching that very carefully to determine just what the agenda will be of the Muslim Brotherhood.

Chairman FEINSTEIN. One other question. In the week leading up to the major protests in Egypt, on January 25th, after Tunisia's protests were in full force, how many warning products did the IC write on Egypt?

Director CLAPPER. The key event, at least from my vantage, was the sudden, snap decision made by President Ben Ali in Tunisia about the 14th or 15th of January. I am convinced that the day he drove to work when that happened he wasn't planning on doing that. That was a very quick decision on his part. When that happened we, I think, upped the game there on describing the general conditions elsewhere in the region and what the potential would be for the "contagion"—to use the now-popular term—as that might affect Egypt. And so we tracked that very carefully.

We can certainly provide you an accounting of specifically I think—and in fact—

Chairman FEINSTEIN. You have, and I've been through it.

Director CLAPPER. Stephanie Sullivan did in her follow-up to a question that came up during her hearing.

Chairman FEINSTEIN. I believe that most of it came from CENTCOM, where there was some, as opposed to the IC. And the reason I bring that up is I think that's a lacking on our part really not to include this kind of open source—I mean, I'm not a big computer person but I looked at Facebook—and I'm not a member of Facebook—and you could get right in and you could see everything about it and all the comments of people. And it seems to me that this ought to be watched very carefully to be able to give our policymakers and our leadership some advance notice. And I think we were at fault in that regard.

Director CLAPPER. Well, we can always do better. There's always room for improvement here, but the Open Source Center, which I think has done some marvelous work—and it might be worth a separate session on their observation of the media in all of these countries—the classical print media; electronic, to include radio and television; and social media—and the analysis they've done—they were doing on that. And as you've seen and as you've observed, correctly so, this is a huge area that we need to watch.

I have to also say, though, that social media does not represent a command-and-control network. So the fact that there's a lot of activity certainly is an indicator, but it doesn't necessarily give you the specific time and circumstance of the events that occurred both in Tunisia and Egypt.

Chairman FEINSTEIN. Mr. Panetta, you wanted to respond?

Director PANETTA. Yes. If I could just add to that, we've been watching this since 2007, looking at social networks and what's going on there. It is a huge responsibility because of the tremendous growth in information. Just to give you an idea, there's 600 million Facebook accounts out there. There's something like 190 million Twitter accounts. There's 35,000 hours of YouTube that is upgraded every day.

So there's a massive amount of data out there, and the real challenge is going through the diversity of languages, going through the different sites that are out there, how do we look at the relevant web sites to be able to draw from them the kind of informa-

tion that will help us? So this involves a tremendous amount of analysis.

I think the Open Source Center has done tremendous work at trying to monitor these areas. I mean, the fact that you're on a web site or a social network is not necessarily predictive of what will take place. Having said that, it's really important for us to monitor these areas and try to get the best sense of what networks, what web sites are having the largest impact.

Chairman FEINSTEIN. Thank you.

Mr. Vice Chairman.

Vice Chairman CHAMBLISS. Director Clapper, it's unfortunate that the press tended to misconstrue what you had to say with respect to the Muslim Brotherhood. Those of us that know you and know the community knew exactly what you meant.

And I just have one other follow-up on that particular issue—and Director Panetta, if you have any comment on this also, I'd appreciate it. Do you consider the Muslim Brotherhood an extremist Islamic organization or is it an Islamic organization that certainly has some members who may be extremists?

Director CLAPPER. I would probably go for the latter characterization. There are clearly other places—there are extremists, no question about it, in the Muslim Brotherhood, and again, its agenda varies from country to country. There is an umbrella organization—an international organization which really doesn't specifically direct the individual chapters or franchises.

Vice Chairman CHAMBLISS. Okay.

Director Panetta, any comment?

Director PANETTA. I think the Director has stressed this but it's important to make the point: This is not a monolithic organization. It's an organization that goes back to the 1920s, and it varies from area to area. I mean, if you look at different countries and different versions of the Muslim Brotherhood, they have different characteristics, they have different approaches. There are groups of extremists that are part of some of these areas. There are lawyers and professionals that are part of the Muslim Brotherhood, for example, in Egypt.

And so it's very difficult to kind of say, okay, they are extremist. It is clear that within the Muslim Brotherhood there are extremist elements that we have to pay attention to, and that's something we watch very closely to make sure that they are not able to exert their influence on the directions of governments in that region.

Vice Chairman CHAMBLISS. Director Mueller, I talked in my opening statement about the extension of the three PATRIOT Act provisions on "lone wolf," roving wiretaps, and access to business records. There's been a lot of I think misinformation put out in the media, particularly over the last several days, with respect to these three provisions.

I'd like for you to address those three provisions and to particularly address these four questions: One, why are they important and necessary authorities; do you support making those three provisions permanent; what are the operational problems caused by sunseting those provisions; and do you have the authority under these provisions currently in law to access information without a court order?

Director MUELLER. Sir, let me start with the three provisions as you pointed out. Let me start with the business records provision, which allows us to go to the FISA Court and obtain an order to produce records that may be relevant to, say, a foreign intelligence investigation relating to somebody who's trying to steal our secrets or a terrorist. Upon us showing that the records sought are relevant to this particular investigation—a specific showing it is—the FISA Court would issue an order allowing us to get those records.

It's been used over 380 times since 2001. It provides us the ability to get records other than telephone toll records, which we can get through another provision of the statutes, but allows us to get records such as FedEx or UPS records, if you had something along the lines of what the chairperson indicated, the recent attacks, or records relating to the purchase of hydrogen peroxide or license records. Records that we would get automatically with a grand jury subpoena on the criminal side, the 215 process allows us to get on the national security side.

If we did not have that capability we would be exceptionally limited to the records that we can get, and the foundation for the continuation of an investigation where we may want to get a wire intercept, for instance, would be undercut by our inability to get the base records that would be necessary to pursue the investigation.

One point I'll make with each of these three provisions is that we have to go and make a showing to the FISA Court in order to get the order directing the production of those records.

The second provision is the roving wiretap provision, which enables us, when we make a showing that the target of our surveillance is attempting to thwart that surveillance, when we make that showing to the FISA Court, the FISA Court will issue an order allowing us to focus on that individual, as opposed to each particular telephone that individual may be using.

If we go and make a showing that an intelligence officer from some other country is changing his telephone number daily or weekly, rather than having to go back to the FISA Court each time he changes that number, the FISA Court order allows us to stay on that individual regardless of the change of telephone number, having made a showing that he is trying to thwart surveillance. Again, this goes through the FISA Court.

If we did not have that provision, it would make it exceptionally difficult in situations where there are so many means of communications now which—and this order, this particular order enables us to focus on the person without going back daily, if not weekly, to get a change of order from the FISA Court.

The last provision is called the lone wolf provision. It indicates that an individual non-U.S. citizen whom we have reason to believe is involved with terrorists, we can use the FISA authorities by going to the FISA Court and showing that this individual is involved in terrorist activities, but do not have to make the additional showing that he is an associate of a particularized terrorist group.

Back in 2001 with Moussaoui, who was here in the United States taking flight lessons, the issue was whether or not he was tied into a particular terrorist group. If you could not make that tie, we

could not use the FISA authorities, and this particular provision was put into the law to avoid that particular circumstance happening again and allowing us to go up on a non-U.S. citizen who was involved in terrorist activities with the approval and the order of a court.

And while we have not used this provision yet, we can anticipate the circumstances in the future where we would have to utilize that provision.

Vice Chairman CHAMBLISS. And making them permanent and problems with sunsets?

Director MUELLER. Yes. I recommend doing it permanently. I believe that the procedure is in place with the FISA Court, the due process required. And every time we come up to a day in which it is going to lapse or sunset, we are in a degree of uncertainty as to what's going to happen after that.

If there is not the continuation of it, we then have to go back and go through thousands of investigations to look at what impact the lapsing of these provisions will have in our ability to pursue those investigations down the road, and what tools we might have to further those investigations.

And so each time it comes up we're in a period of uncertainty until it is reauthorized for a particular period of time. And quite obviously I would suggest that, given the threats we face, the provisions of these particular rules, that it would be appropriate to permanently reauthorize these three provisions.

Vice Chairman CHAMBLISS. Thank you.

Chairman FEINSTEIN. Thank you, Mr. Vice Chairman.

Senator WYDEN.

Senator WYDEN. Thank you, Madam Chair, and thanks to all of you for the service that you are rendering our country.

Gentlemen, I don't take a back seat to anyone when it comes to protecting intelligence sources, operations and methods. That is absolutely crucial to the security and well-being of our country.

But I will tell you I am increasingly troubled about the intelligence community's reliance on secret law. And this is the legal interpretations of the key laws, instances where government agencies are relying on a secret interpretation of what the law says without telling the public what the interpretations are. And to me, if there is a gap between what the public believes the law is and what the government secretly thinks the law is, I think we've got a problem on our hands.

So let me start with you, Director Clapper, with a question that gets into the PATRIOT Act, because that's obviously a key one we're going to have to deal with in the days ahead.

Director Clapper, do you believe that members of the American public now have enough access to key information to figure out how our government is interpreting the PATRIOT Act?

Director CLAPPER. Sir, I do believe there is a wealth of information there. I would refer to the Department of Justice or FBI web pages on this subject as a source of public information. There is in the case of the PATRIOT Act potentially, you know, what I think is a fairly small segment of that which is secret, for much of the reason you outlined. That's why these activities are overseen by a

court and as well overseen by the Intelligence Committees on behalf of the American public.

I think it's our objective to make this as transparent and explainable to the American public as possible, and minimize as much as we can that which is secret.

Bob, do you want to add to that?

Director MUELLER. I think what I would say is I do believe that the legal opinions of the Department of Justice are made available appropriately; that is not to say that an opinion that is classified, that is widely distributed. But I know that there is a distribution discussion with Congress even in those areas in which there is substantial classification. But again, I'd have to defer to the Office of Legal Counsel in Justice to determine how that process goes forward.

Senator WYDEN. I'm talking, Mr. Mueller, about the American people. And I believe that the American people would be absolutely stunned—I think Members of Congress, many of them, would be stunned if they knew how the PATRIOT Act was being interpreted and applied in practice.

Now, I voted last night for the short-term extension. I'd rather deal with this now and permanently, rather than kicking the can down the road. But I'm going to insist on significant reforms in this area.

We're not talking about operations and methods. Those have got to be protected for the security of the public. But there is a huge gap today between how you all are interpreting the PATRIOT Act, and what the American people think the PATRIOT Act is all about, and it's going to need to be resolved.

So let me follow up with the second question for you, Mr. Clapper, again in this regard. And this deals with your authority to take action against Americans who've taken up arms against the United States.

A year ago your predecessor, Director Blair, said, "We take direct actions against terrorists in the intelligence community. If we think that direct action will involve killing an American, we get specific permission to do that." Now, that is obviously a statement with great consequence, and it certainly raises a lot of important issues.

In my experience, you don't see a government official making a statement like that without an extensive amount of legal analysis. I've asked for that legal analysis; nothing has been handed over yet, which again drives home the point that when we're talking about operations and methods, absolutely, we have to protect the men and women in the field.

But we ought to have these legal interpretations, and I'd like to know your answer to my question in this regard, with respect to getting that interpretation in our hands.

Director CLAPPER. Well, we—and I think I speak for all of us—are committed to ensuring that the Congress understands the legal basis for intelligence activities, any intelligence activity. In fact, this is a requirement of the Intelligence Authorization Act for FY '10. And it's my understanding that the members of the Committee have been briefed on these and other authorities.

I think the issue that you get to, and at the root of your question, is what Director Mueller alluded to, which is the actual provision

of the formal written Office of Legal Counsel opinions at the Department of Justice and whether or not they, in their entirety, can be provided to Congress, which is kind of not our—at least not my—call to make. But I will assure you I am committed to ensuring that Congress understands the legal basis for any and all intelligence activities.

Senator WYDEN. Well, right now, with respect to the executive branch's official interpretation of what the law means, we're not getting it. And I think that's an issue—well, my round has expired, so we can continue this—that I'm going to insist on reforms here. I want to see us come up with a bipartisan set of reforms for the PATRIOT Act; we're not there yet. And I'll look forward to continuing this conversation.

Madam Chair, thank you.

Chairman FEINSTEIN. Thank you very much, Senator.

Senator Udall, you are up next.

Senator UDALL. Thank you, Madam Chair. Good morning, gentlemen.

Maybe I could turn to cyber. I serve on the Armed Services Committee as well as the Intelligence Committee and this is of increasing interest in both sectors. Could you all respond to how much our security posture has improved and how do you measure such progress? For instance, intrusion rates—are they dropping for .mil or .gov systems and how have our cyber defenses forced our adversaries to change their tactics and, if you will, up their game to penetrate our networks? I'm not quite sure who to start with but would welcome—maybe General Clapper.

Director CLAPPER. Well, let me start, sir. I think in this setting I can say that certainly the threat has increased and, you know, I've tried to outline some of the manifestations of that in my opening statement. But I also think we're making progress in defending our cyber, particularly at least in the government-military realm, and I would ask your forbearance in going into specifics, statistics and where are the sources of the attacks and et cetera in a closed session.

Senator UDALL. Thank you for that appropriate response. Other members of the panel? Director Panetta.

Director PANETTA. Senator, I said this the other day and I'll repeat it—that I really do think that the cyber area is the battleground of the future, that we are talking about increasing capabilities, increasing imaginative uses of cyber that I think hold the potential for basically being able to paralyze and cripple a country if it's used to bring down a grid system or the financial systems or the government systems of the country.

So it concerns us a great deal. We're seeing more attacks out there. I think we have successfully defended against many of those attacks but at the same time I think we've got to be aggressive at making sure we know how these attacks are coming.

Senator UDALL. Director Mueller.

Director MUELLER. Yes, sir. I think all of us believe that each of our entities has got to grow substantially over the forthcoming years to address cyber attacks in all of their iterations. One of the problems we have is, at the outset of an attack you do not know whether it is a foreign country, foreign government, somebody af-

filiated with a foreign government, a group of hackers or the high school student across the way, and we are all aligned in our particular specialties—counterintelligence if it's a foreign government, criminal if it's somebody who is intruding for criminal purposes.

One of the entities we've established which is very helpful is called the National Cyber Investigative Joint Task Force, where representatives of all of us sit together so that if there is an intrusion we have all of our areas of expertise, including NSA, quite obviously, to try to identify that intrusion and then determine how we best follow and track that intrusion.

So while I think all of us would agree that cyber threats are increasing dramatically—daily, monthly, weekly—we understand that we have to come together and work very closely together in order to attribute those attacks and then pursue and deter those attacks in the future.

Senator UDALL. Others who wish to comment on the panel? I would note that the chairwoman led a delegation of Senators to China last year and we had a series of conversations with Chinese leaders about working together in this area. It strikes me that nation-states, multinational corporations, institutions of all types have an interest in working together. It may be more the insurgent kinds of groups that are the threat here.

We clearly know more about how to go on offense than to play defense. But I appreciate the attention all of you are paying to this important area and I know the Committee will continue to learn more in closed briefings and work to see if we can't understand better how we meet this threat. So thanks again for your service and for being here today.

Chairman FEINSTEIN. Thank you, Senator Udall.

Senator Coats.

Senator COATS. Thank you, Madam Chairman. First of all, I want to thank everyone at the table here. Your job is immensely complex and the multiplicity of threats that you have to deal with is such that you're on call 24/7. So I hope we can provide you with coffee sometime during this hearing. But I just appreciate the hard work all of you are putting in in trying to provide security for our country in a really, really complex difficult time.

Director Clapper, I also appreciate your clarification of your statement on Muslim Brotherhood. All of us who have stood for election understand how sometimes, given a second chance, we would have elaborated or not said anything. Wasn't it Will Rogers who said never pass up an opportunity to shut up? I've faced that situation a number of times and should have used his advice.

I do want to ask you, however, about another statement that you made. It's on Page 4 of your statement and I'll quote it and I think you even mentioned it in your opening statement: "We continue to assess Iran is keeping the option open to develop nuclear weapons in part by developing various nuclear capabilities that better position it to produce such weapons should it choose to do so. We do not know, however, if Iran will eventually decide to build nuclear weapons."

I've got three things that bother me or concern me about that statement. Number one, if we look at what has happened over the past several years with Iran's extravagant and continuing efforts to

defy U.N. Security Council resolutions, if we look at its abrogation of its safeguards agreement, the regime's toleration of broad international condemnation, the ever-ratcheting sanctions that we're imposing against it, to me it's hard to—I mean, even in the face of domestic unrest the defiance seems to be extraordinarily strong and unremitting and it's hard to conclude, I think, that Iran isn't pursuing that. If they're not, they're playing quite a game of bluff.

Secondly, I'm concerned that such a statement might undermine the resolve to go forward and apply even stronger sanctions. I think that's been suggested by some in the administration, that even the current level of sanctions doesn't seem to be having the desired effect. Some effect, perhaps—hopefully better. But there is some serious thought by a number of the leaders within the administration saying even this is not enough and we may need to do more.

And then thirdly, I think my concern with the statement is that even if they have not taken the enriched uranium to the point of constructing a nuclear weapon, isn't it just a short matter of time delay between having the capabilities all in place and actually developing the weapon? I'm just concerned about waking up some morning and you'd have been waken up at 3:00 a.m. and I would turn on CNN and hear that Iran has successfully tested a nuclear weapon capability. I just wonder if you want to elaborate on that statement a little bit for the reasons that I suggested.

Director CLAPPER. Senator Coats, it's obviously a great question and as you may have heard or seen we have completed what's called a memorandum to holders, which is an update of the 2007 National Intelligence Estimate that was done on this very issue, which is scheduled to be briefed to the Committee staff this afternoon and right now is scheduled to be briefed to Members the week of 14 March. I have the National Intelligence Officer who led that update present here today, should you want to get briefed.

I think, though, the direct and fulsome answers to your very relevant and pertinent questions would be best addressed in a closed session.

Senator COATS. All right. Well, I'll tell you what I'll do. I'll set aside my reaction to your statement, assuming that perhaps there's more to be learned about this that might better clarify that statement.

Director CLAPPER. Yes, sir. That statement represents what, you know, we judged we could say publicly. There obviously is much more detail that underlies that statement and I think that you should hear that in closed session.

Senator COATS. Madam Chairman, I don't think I should go any further down this road.

Chairman FEINSTEIN. That briefing will be classified, so you will get everything you need.

Senator COATS. I understand. I just, for the record, wanted to clarify your current thinking on the public statement that was made.

And I thank the Chairman.

Chairman FEINSTEIN. Thank you very much, Senator.

Senator Conrad, you're next.

Senator CONRAD. Thank you, Madam Chairman.

I'm new to the Intelligence Committee and I just want to say how impressed I am by your leadership and by the way you and the Ranking Member work together on this Committee. This is the way it should be. And I'm delighted by what I've seen already.

I also want to say to the gentlemen here testifying how deeply impressed I've been by what I've learned about the operations that you have under way—things that we cannot talk about.

I have been so struck by criticisms in the press directed at you that you can't respond to. But the American people should know what I've learned here tells me you have had remarkable success. I am so impressed by information that was provided specifically on Egypt. Truly, you know, at some point in the history, there will be a chance for the stories to be told of what you've done, and it's really remarkable.

I want to go back to the question of cyber, because, as I look across the broad front of threats to this country, I think it's a place that's getting too little attention. Senator Whitehouse—who served on the Committee and was very involved in these issues—had a chance to brief me. He talked about the very good work Senator Mikulski and Senator Snowe have done with him on a major report on the cyber threats.

General Clapper, I picked up on your statement about \$1 trillion in costs of cyber attacks. Can you clarify: Is that a cumulative total? Is that private sector losses? Can you give us some sense?

Director CLAPPER. It's a cumulative total based on private sector estimates of what they believe has been lost because of cyber intrusions—primarily from criminals, hackers and the like.

Senator CONRAD. You know, if we put that in perspective, this is a staggering, staggering number—a trillion dollars in losses because of cyber attacks.

And if we look at 2010, we had Google reporting their announcement on penetration of their systems. We had disclosure of the compromise of classified DOD networks; we had the Stuxnet virus discovery. We had the report on NASDAQ systems being attacked.

I'm not certain that there is a public recognition of how significant these cyber attacks are and the threat they pose to our country.

I would ask this, because I know it's very difficult in this open session for us to have a full conversation, but I'd like to hear from you how the witnesses who are here today would characterize our efforts on the cyber front.

Director CLAPPER. Well, it's like many things we do—good, but could be better. I think there is realization—at least among myself and my colleagues here—of what the threat is. I think Leon has characterized it very well. And there is more to be done. Obviously, the Congress is very involved in this. There are multiple legislative proposals that have been made on how to do this, so we await the outcome of that.

One thing you alluded to, Senator Conrad, which I think is right on the money—and Senator Whitehouse, a former member of this Committee, spoke to this, as has Senator Mikulski—is we have a responsibility here to do better in attempting to educate the public at large about the magnitude of this threat.

In my former capacity as Under Secretary of Defense for Intelligence in DOD, I was party to a number of industry fora that the Department led—first by Gordon England when he was Deputy Secretary and carried on by Bill Lynn, the current Deputy Secretary, who, by the way, has been a tremendous proponent for doing this—just focusing on the defense industrial sector.

I believe there is a growing awareness, certainly among the leaders of the principal industries affected, of what needs to be done. And there is an emerging partnership here that's gotten better and better. But I think a point that you alluded to, which I think is right on the money, and that is the need for us to be more forthcoming with the magnitude of the threat—I mean, with obvious due deference to security and sources and methods.

Senator CONRAD. You know, one thing I've noticed is the private sector, they're very reluctant to have any publicity about successful attacks on them. And so that means the public is not fully aware of how successful some of these attacks have been.

My time is expired, but I'm very interested in following up in terms of what we can do on this Committee, and more broadly in Congress, to help respond to what I think is a growing threat that is extremely serious to the national security.

I thank the Chair.

Chairman FEINSTEIN. And I thank you, Senator Conrad.

Senator SNOWE.

Senator SNOWE. Thank you. Good timing.

Chairman FEINSTEIN. Yes, excellent.

Senator SNOWE. Thank you, Madam Chair.

Director Clapper, I wanted to follow up on some of the issues that were raised by my colleague, Senator Kent Conrad, about the issue of cybersecurity, because there are multiple facets to this issue that expose our vulnerability and so obviously, one of our greatest threats. And that's why I've been working on this initiative with Senator Whitehouse, as well as Senator Rockefeller and Senator Mikulski.

On one dimension of that that has, I think, gotten attention this week—and I wanted to ask you about it—I know that you have mentioned in your testimony in the past about the degree to which we're seeing more malicious cyber activity targeting U.S. companies, that almost two-thirds of U.S. firms have reported that they've been the victim of cyber security incidents or information breaches, which is more than tripled from 2009, according to what you've indicated.

Now, you're a member of the Committee on Foreign Investment in the United States. As I understand it, CFIUS—as it's known—informed Huawei that they should divest themselves of the 3Leaf Systems, which is a California-based server company. They have rejected that and I gather they're waiting as to whether or not the President would make a determination, take any action. He has 15 days in which to do it.

I'd like to get your comments on your view of this company. But it does present a serious problem, because obviously, a lot of American companies are going to be purchasing this technology. They have no guidance, no understanding. We haven't, obviously, yet the policy to understand the manner to which or the degree to which

they can penetrate our systems. You know, we understand the serious vulnerabilities involved and the threats that are involved. And so this is a good example of one of the problems that we are facing in this country.

In addition to that, the U.S.-China Economic and Security Review Commission issued a report in January that talks about how Huawei maintains a cooperative agreement with the China Development Bank worth \$30 billion. And as you know, Huawei has been the subject of numerous questions in terms of its association with respect to its management and close ties to the Chinese military—not to mention the billions of dollars of potential subsidies that makes our companies vulnerable here in the United States to that as well.

So can you comment on your views on that and where do we go from here?

Director CLAPPER. Well, I probably shouldn't get into the specifics of Huawei, since this is a matter of litigation within the government.

I would say, though, that what this highlights is the importance of understanding supply chains. And this is one of the—well, the two-edged sword of globalization has been the interdependence of the industries and particularly in the telecommunications business, where there's been a collapsing of these large companies as they've merged.

And so the whole issue of—rather than singling out Huawei, which is just one example—there are others—of ensuring that our industry is aware of, in a very specific way, the supply chain implications and the potential security threats that are posed when we depend on foreign concerns for key components in any of our telecommunications network.

Senator SNOWE. Well, you know, I see in the report of the Commission that it not only identifies Huawei but I think also another company, DTE. So obviously, these are major global manufacturers. So they obviously have enormous implications.

Now, there's a company in Maine, for example, that I gather was approached, Director Mueller, by the FBI with respect to their purchase of Huawei equipment and was asked not to use that equipment.

So this is the problem here as we go on down the line for a company—and they obviously chose to go forward with it. But, you know, these companies don't have any direction. They don't have, really, the benefit until it's too late of any information.

But this is going on exponentially, especially with companies the size of Huawei. And so, Director Mueller, I don't know if you can comment on this particular case or not. It doesn't identify the company. But nevertheless to say that they were approached by the FBI because they had used them to purchase their equipment and obviously had made a significant investment already.

Director MUELLER. I don't think I can speak to the particular case but would be happy to get you the information and discuss it in another forum.

Senator SNOWE. I thank you. I guess it points to the issue as to how we're going to review this whole process. Do we think it's working right currently, General Clapper?

Director CLAPPER. Well, this is related to a previous response about better outreach, better education if we become aware of pending transactions—and I'm not singling out Huawei but any of these where there is a national security implication. I have been working this with the Office of the National Counterintelligence Executive, which is embedded in the DNI staff, on this very issue.

How can we do broader outreach to ensure that, if we learn of them, that there are such pending transactions which could have—again, dependent on foreign supply chain—which could have national security implications? I think we need to do better at our outreach. But one of our problems is finding out about these transactions that are pending right at the eleventh hour.

Senator SNOWE. Well, I think that that's the point. I mean, is the current CFIUS process working? Do we need to do something differently? And I think that that is something, Madam Chair, that we need to be working on with you regarding this issue because it could get beyond us.

Director CLAPPER. I'm not really in a position to comment on the overall effectiveness of the CFIUS process. I do think, though, that once it reaches a CFIUS transaction, that the intelligence community's views are made known.

Senator SNOWE. You're a member, though. You're a non-voting member. Is that right?

Director CLAPPER. I think that's my status, yes.

Senator SNOWE. Okay. But there are seven agencies—seven departments that are involved.

Director CLAPPER. Right.

Senator SNOWE. Clearly, I'm wondering if it is too late by the time it gets to the attention of this committee. That's something we need to look at.

Thank you.

Chairman FEINSTEIN. Thank you very much, Senator Snowe.

Senator Rubio.

Senator RUBIO. Thank you.

This question's for Director Mueller. I want to talk a little bit

Chairman FEINSTEIN. I beg your pardon. If you could hold up, I missed a very important member, Senator Mikulski, who was next.

Senator MIKULSKI. Madam Chair, I'm the longest woman serving. Thank you for helping me not to be the longest waiting.

Chairman FEINSTEIN. Yes.

[Laughter.]

Senator MIKULSKI. First of all, General Clapper and to all at the table, we really do want to thank you for your service. The fact is Senator Conrad said the enormous successes that we've had, the fact that there's not been another major attack on the United States of America, says something's got to be working and working pretty well. So we want to thank you for that. Also, General Clapper, I want to thank you for bringing the array of your intel team to speak here. Usually, it's only the DNI, and I think it adds to a very robust way to have all of you here.

I want to focus, if I could, on Director Mueller. First of all, Director Mueller, we've been together for 10 years. You came to the FBI just a few weeks before the horrific attack on the United States

and the terrible events at the World Trade Center. Your term expires in September.

So one of my questions will be: As we look at every issue of the day, whether it's a Twitter revolution, Wikipedia leaks, whatever, in your decade now as you are looking at it, what would you say and advise the Committee are the top issues that we need to maintain an enduring vigilance over as we respond to fast-breaking, late-breaking events of the du jour? Because the Committee has to be in it for what are with the enduring threats and what do we really need to stand sentry over from your perspective at the FBI in your collaboration with the intel community.

Director MUELLER. If you look at the array of threats that we face and you prioritize them, quite obviously, it's the threats from terrorism coming out of the FATA, Pakistan, Afghanistan, given Shahzad, Zazi, the cases that we've had where either TTP or al-Qaida have contributed to the ability of persons to try to undertake attacks in the United States; Yemen, with the printer bombs as an example, as well as the Christmas Day attacks, with the ability of individuals to come up with ingenious ways of constructing IEDs to get through our various checkpoints; Somalia.

But then also we cannot forget domestic terrorism in the sense that militias, white supremacists—continually in the back of our mind, there is the Oklahoma City and the McVeighs that we have to be alert to.

And so the array of terrorist threats are not going to go away in the near future.

Second to that, which is as important, is the threat of spies. And we go to the cyber, and this will lead into the cyber arena. In the days of old, intelligence officers would operate out of embassies or what have you and you'd have a way of addressing them. Today, it's as easy, if not easier, to insert or intrude into various systems and exfiltrate the information you need, with far less risk to the individuals.

And then the third area, which has been alluded to here, is the growth of cyber and all of its iterations. And by that I mean a criminal robbing banks, the theft of intellectual property, exfiltration of information from DOD or others. It is not lost upon us that several years ago, a group of individuals brought Estonia to its knees as a result of displeasure at actions that the Estonian government had undertaken. And, more recently, in Georgia, before the Russians attacked Georgia, it's no secret that they went a far ways to dismantling the command-and-control capabilities of the Georgian authorities.

And so in terms of terrorism, that would be a high priority, but also protecting our secrets from those governments and other individuals who want to steal them and then preparing—particularly NSA and others—the cyber—I don't want to call it a battlefield—but the cyber arena which has both offensive as well as defensive responsibilities.

Senator MIKULSKI. Which takes me to something unique to the FBI, which is the role of organized crime. Often in the old days of either the CIA agent with the tan raincoat running down alleys or trying to turn people or the old gumshoe days of the FBI, you now

have essentially non-nation-state actors in the field of organized—we're talking about organized international crime.

Do you see that as a threat to our critical infrastructure where organized crime through, particularly in the area of financial services—the NASDAQ intrusion, for example, where they could have done flash trades or any number of things that could have had a devastating effect. It would have been another attack on Wall Street, far less visible, but equally as devastating.

Would you comment on the role of organized crime and the world of cyber? And is this another area where we need to stay right on the edge of our chair?

Director MUELLER. It's an area that we are focusing on.

I testified, I think, a couple of weeks ago—I can't remember which panel—but we focused on recent arrests we've made with the assistance of our Eastern European counterparts.

Inasmuch as there is a triangle of individuals in certain governments associated with organized criminal groups, as well as with businesses, that can obtain a stranglehold on a particular supply and utilize that stranglehold to extort monies or businesses, it's the evolution of organized crime from where we knew it in our cities with the traditional organized-criminal groups we went after to criminal groups throughout the world who have much more power, much more access to governmental authority, and much more access to the capabilities of utilizing cyber capabilities to attack and obtain the funds that ordinarily they would get by the payoff in a bar.

Senator MIKULSKI. Got it.

Thank you, Madam Chair. I know my time has expired.

Chairman FEINSTEIN. Thank you very much, Senator.

Senator Rubio.

Senator RUBIO. Thank you. Thank you very much.

First of all, let me begin by thanking all of you for your service to our country. This is, I guess, my first meeting on this Committee. I'm new to all of this. And I beg your indulgence if I ask you questions that may have been established in previous hearings or what have you. But thank you again for your service. You have a very difficult job.

That being said, Director Mueller, what I wanted to ask was about high-value detainees. In particular, what is the primary mandate of the FBI when it interrogates high-value detainees? Is it to gather information for criminal prosecution, or is it to gather information so we can disrupt and prevent attacks?

Director MUELLER. Obtain intelligence. Number one is to obtain intelligence.

Senator RUBIO. In that light, then, the current interrogation techniques that are in place, are they sufficient to accomplish that goal, or do we need techniques to go outside the Army Field Manual?

Director MUELLER. The techniques that we use and have been approved for use over a number of years are not necessarily co-extensive with the Army Field Manual. But we continue to use them both domestically and internationally because they've been tried and tested over years. And they are sufficient, I believe, to obtain the information that we need.

Senator RUBIO. So it's your testimony that the techniques that we have in place today get us all the information we need from the high-value detainees that we are—

Director MUELLER. I believe that to be the case.

Senator RUBIO. Okay. And Director Panetta, my understanding, from the reading materials is that the CIA provides backup on high-value detainees. Is that correct?

Director PANETTA. That's correct. We usually are there, provide support, provide questions, and will work with the FBI to try to achieve the information that we are seeking.

Senator RUBIO. I'm not here to trigger a turf war, but my question is, is that the highest and best use of the Central Intelligence Agency on these issues, or would we gather more intelligence if the CIA were empowered to do more?

Director PANETTA. Look, the name of the game is to get the best intelligence we can to try to protect this country. And I think right now the process that we have in place to deploy these teams of interrogators—CIA, FBI, the DIA—is part of that process as well.

When we deploy those teams of interrogators to go after a high-value target, it brings together the best resources that we have in order to try to get the information we need. So it works pretty well.

Senator RUBIO. So your testimony is that it's the highest and best use of the CIA?

Director PANETTA. I think that kind of partnership is the best way to use the resources from all three in order to get the information we need.

Senator RUBIO. Now, maybe this is for everyone, or maybe you'll decide among yourselves who answers this, I'm interested in Afghan detainees in particular. Do we have the authority we need to hold and interrogate detainees that are obtained in Afghanistan, outside of Afghanistan?

Director PANETTA. With regards to—

Senator RUBIO. Let me make this question simpler. I apologize. Maybe I didn't ask it right. The uncertainty over where to hold detainees outside of Afghanistan, is that impeding our intelligence-gathering efforts?

Director PANETTA. No, it isn't, because, you know, any individual that we're after either comes under the jurisdiction of the country that they're in or, in cases of Afghanistan, they're usually put into a military facility. And that gives us the opportunity to go after and interrogate them there.

Senator RUBIO. So the existing detention capabilities that we have in place today are optimizing our intelligence-gathering capabilities? Is that the testimony?

Director PANETTA. The ability to detain them in a place where we can then interrogate them, that process works very well.

Senator RUBIO. Okay. Rising recidivism from former GTMO detainees, how are we tracking that? I'm not sure what efforts are being taken to keep an eye on that. I know that's in essence—what's the latest and greatest on—

Director CLAPPER. I think General Burgess, Director of Defense Intelligence Agency, would be the best to answer that question, sir.

General BURGESS. Sir, we have a system that has been in place now for a few years where we track the recidivism rate, and we put

a report out quarterly dealing with that. And I think the report is fairly self-explanatory. It is a classified report, and it is provided to the Committee and to the others.

But I think the process that we have in place is a good one. The concern is always confirmed, is one of those things that's a pretty set piece, suspected is—you know, the devil is in the details, as I would say, where there is always some discussion on that as we come to our figures on recidivism.

Senator RUBIO. And again, if we can't answer here, I understand. I'm not asking for numbers or figures that would compromise any information. I guess the general gist of it, is this an area of growing concern? Because I didn't see it mentioned in any of the statements, the recidivism rate from Guantanamo. Is that an area of concern for the intelligence community?

General BURGESS. Well, yes, sir, it is. I mean, if we have one recidivist, that's one too many. So we are concerned about this, and we do track it. And that effort is a focus of the Defense Intelligence Agency. So, yes, sir, we are concerned about it.

Senator RUBIO. Thank you.

Chairman FEINSTEIN. Thank you, Senator. Senator Risch.

Senator RISCH. I'm going to pass, thank you.

Chairman FEINSTEIN. Okay. I think we'll have one more round, and I'll begin.

Mr. Panetta and Mr. Leiter, I'd like to turn to Pakistan. I've become more and more concerned. It appears the ISI walks both sides of the street. The failure of the country to turn over two leading—one operator, one leader—from the Mumbai attack to India; the reluctance to go into North Waziristan; the development of a safe harbor; the concentration of a number of terrorist groups in that safe harbor; the fact that Pakistan has major flood issues and yet has chosen to build another nuclear weapon, which to some, I think, seems a very bad choice at this time.

So I'd like to have comments from both of you, and Mr. Panetta in particular; you go there very often. I think we ought to really understand where we are with this country. And I won't go into the failings of a government, but I think there's every reason to believe that concern is rising over what the future is going to be.

Director PANETTA. Madam Chairman, this is one of the most complicated relationships that I've seen in a long time in this town. On the one hand, obviously we are involved at targeting the leadership of al-Qa'ida there in the FATA. And we do get the cooperation of the Pakistanis in that effort in trying to target those individuals that concern us and that threaten this country, and threaten their country as well.

In addition to that we have gotten their cooperation on a military basis, being able to go into places like South Waziristan and have a military presence there, moving some troops from the Indian border for the purposes of doing that. And that has been appreciated as well.

At the same time, obviously they look at issues related to their national interest and take steps that further complicate our relationship and create tensions between our country and theirs. And that happens a great deal. And our effort is to try to work through those, because, in the end, what I try to convince the Pakistanis

of is that we have a common enemy and we have common issues that require the cooperation and partnership of both countries in order to be able to deal with those threats.

But I have to tell you that it is very complicated and it does involve oftentimes conflicting viewpoints of how we deal with issues.

Mr. LEITER. Madam Chairman, I think first I would say that your citation of points are fair and accurate ones of the challenges we face.

With respect to the terrorism situation in Pakistan, first I would note, we still see al-Qa'ida in Pakistan being at its weakest point since 9/11. Some of that has to do with what the Pakistanis have done with us; some of that is what they allow us to do. But it is critical that we have really hurt al-Qa'ida core in a very meaningful way.

That being said, there are certainly weaknesses in that cooperation at times, and in particular I think the ongoing dispute that you note about the Mumbai attackers feeds into the tension between the two nations and can also undermine some of our counterterrorism efforts, not just at al-Qa'ida but also Lashkar-e-Taiba.

Chairman FEINSTEIN. You, Mr. Leiter, made a comment at the House hearing about Lashkar-e-Taiba having the ability to strike the United States and Europe. Could you expand on that?

Mr. LEITER. I can to some degree in this setting, Madam Chairman. What we have not yet seen is a history of them doing so. We are certainly concerned by some indicators we see of them expanding their horizons beyond the region. Certainly they have the capacity—it's a large organization.

What they did in India could theoretically be launched elsewhere. But we have not yet seen those steps occur. I think the additional point that I would stress is they can still be a very destabilizing factor in the region. So, even without striking in the U.S. or Europe, a further attack by Lashkar-e-Taiba in India would very much hurt our national security and our counterterrorism interests in Pakistan.

Chairman FEINSTEIN. Mr. Panetta, you mentioned trying to work through these issues. I just wonder how effective a position that is.

Director PANETTA. Sure. Madam Chairman, because we are involved in obviously very important efforts to deal with an enemy that threatens this country and we're doing it in their nation, in the FATA and the tribal areas, it does require that we have to go out of our way to do everything possible to get their cooperation. And for that reason I spend an awful lot of time talking with my counterpart, both in Pakistan and here as well to try to see if we can focus on some common issues.

We have some common areas that we can work on. We work with them; we work with our Afghan counterparts, as well, to try to develop a coordinated approach to dealing with this. At the same time, there are issues that we have with regards to how they operate, the ties they have to certain groups that concern us, that we try to work through in these discussions. I have to be part Director of the CIA and part diplomat in order to get this job done.

Chairman FEINSTEIN. Could you speak to what the rationale is for the building of another nuclear weapon? How much of the coun-

try has been underwater and really in difficult, difficult circumstances?

Director PANETTA. Well, again, one of those other complicating issues is the fact that they're a nuclear power. They have a number of nuclear sites throughout their country, and they have proceeded to keep up development of their nuclear weapons. As far as the broad policy implications of the economy, the politics, the stability of that country, dealing with the flood damage, you need to ask them why they're not paying attention to those other problems.

Chairman FEINSTEIN. Thank you very much.

Mr. Vice Chairman.

Vice Chairman CHAMBLISS. Thanks, Madam Chairman.

General Burgess, going back to this Guantanamo detainee issue, the recidivism rate, as I understand it, is in excess of 25 percent today. That means one out of every four that have been let go, turned over to another country, has engaged on the battlefield against American or maybe Afghan troops.

Now, that's what we know. I suspect the number is probably higher than that because we don't know all of the individuals who have gone back to the battlefield. Our policy that's in place today has even allowed some of those prisoners to be returned to places like Yemen, where we have very little control, and my understanding on a visit to Yemen is that they basically were sent back to their tribal region and they have a personal obligation on themselves to report back to us. Nobody believes and certainly they haven't on their own initiative come and told us where they are and what they're doing, so they basically have no supervision.

We are now down to probably the real hardcore in Guantanamo. Do you see any further revisions in our policy with respect to those individuals, and with what's happening in the Middle East today, particularly Tunisia, Egypt, a number of other countries—Bahrain, I noticed this morning, is the latest to have protests—has this had an impact and reflected upon our decisions with respect to release of those individuals to any particular country?

General BURGESS. Sir, in regards to the first part of your question, the 25 percent figure that you mention is a combination of both confirmed and suspected. So the whole 25 percent would not be confirmed by the Defense Intelligence Agency in terms of having returned to the fight or reengaged.

The intelligence people in DIA—I would say in the community, though I'm reticent to speak on behalf of the community—would not push back on your statement in terms of there is concern out there as we return some to certain countries that the following mechanisms are not totally in place that would make us comfortable in that, but that is more of a policy call.

And then, to the last part of your question, sir, I would defer because I don't think it's appropriate for me to be commenting on policy as the Director of the Defense Intelligence Agency.

Director CLAPPER. Sir, if I might add, one important factoid I think I should mention is that the President suspended any further repatriations to Yemen precisely because they don't have the apparatus there to either monitor or rehabilitate. And with the new processes that have been instituted, that 25 percent recidivism

rate—in the last two years or so I think there are now five—two confirmed and three suspected—that are recidivists.

Now, the counter to that, of course, is that you need more time—more time would elapse, you would discover these people. So it remains to be seen. There are about, I think, 172 detainees remaining at Gitmo, and, as you correctly pointed out, the bulk of those, from a single nationality standpoint, I think are Yemeni. And right now I don't think there's much likelihood of our returning anyone to Yemen, particularly in light of, as you pointed out, the upheavals that are going on there. And that certainly would bear on any of the other countries that are affected that we might consider for repatriation.

Vice Chairman CHAMBLISS. Well, we've got a problem in this area that the Chairman and I have already had some initial conversation about, and Senator Graham and I have been working on a piece of legislation that's going to be forthcoming. And the problem is, General Burgess or Director Panetta, let's say your folks were successful in capturing bin Laden, Zawahiri, any other HVT, tomorrow, what are you going to do with them?

Director PANETTA. The process would obviously involve, especially with the two targets you just described—we would probably move them quickly into military jurisdiction at Bagram for questioning, and then eventually move them probably to Guantanamo.

Vice Chairman CHAMBLISS. We haven't moved anybody to Guantanamo in years now. And, obviously, there's been a move towards closure of that facility, and I would tend to agree with you that's probably the best place for anybody to go right now, the safest place from a national security standpoint. Politically, it may not be popular, but certainly it is. I appreciate your honesty and straightforwardness about what you would do.

Director CLAPPER. If we were to capture either one of those two luminaries—if I can use that term—I think that that would probably be a matter of some interagency discussions as to what their ultimate disposition would be and whether they would be tried or not. That would, I am sure, if we did capture them, be subject to some discussion.

Vice Chairman CHAMBLISS. Thank you.

Chairman FEINSTEIN. Thank you, Mr. Vice Chairman.

Senator Wyden.

Senator WYDEN. Thank you, Madam Chair.

Director Clapper, I think you know that I'm going to ask a follow-up question about Stephanie O'Sullivan. I think we've communicated it to your staff.

And let me approach it this way. You know, this, to me, is not about finger pointing. I mean, this is about the American people see \$50 billion going out the door in terms of intelligence, and they want to see particularly how information is made available to policymakers in a timely kind of fashion.

And we got a classified response to the questions that I asked Ms. O'Sullivan at her hearing, and voted for her, and I think she's going to be a good person in your operation. But I want to go further and see what we can get on the public record with respect to this area.

Now, I come to this almost by way of saying that nobody ought to think that the intelligence community should have predicted that a street vendor in Tunisia was going to go light themselves on fire and trigger these protests all around the world. But at some point, Mr. Director, after that young man's self-immolation and the events of that period, it must have been clear to intelligence community analysts that this wave of protests was going to threaten President Mubarak's hold on power. And at some point analysts must have communicated this to policymakers. When did that happen?

Director CLAPPER. Sir, if you're looking for a date, I would pick January 14th, when Ben Ali, in what I thought was a surprising snap decision, he dismissed the government. He called for new parliamentary elections within six months, declared a state of emergency, announced he was stepping down temporarily and then fled to Saudi Arabia.

That, I think, was the tipping point, if you will. And we saw—the community, I think, pretty clearly saw what the contagion effect was going to be and those states throughout the Mideast that would be most susceptible to that contagion, prominently among whom was Egypt.

Senator WYDEN. Are you satisfied with the way in which the intelligence community handled it? And do you, looking back now—always easy to come back in hindsight—are you looking at any improvements or adjustments given what you've seen?

Director CLAPPER. Well, I think the first comment I would make, sir, is that we're not like Sherwin Williams paint. We don't cover the Earth equally. And so, frankly, Tunisia was probably not up there on our top 10 countries we were watching closely.

So there is the aspect of, you know, the spread, the balance of our collection—

Senator WYDEN. Priorities.

Director CLAPPER. Priorities, exactly. So, obviously, we're going to work on that. I think the notion—as the Chairman correctly observed—is, you know, we're going to pay a lot more attention to social media and what else could we do there to extract a warning from this.

But, to me, this is—a good friend of mine wrote a piece on this. This is somewhat like an 85-year-old man who's overweight, has high cholesterol, diabetes, heart disease, doesn't eat well, doesn't sleep well and you know their life expectancy is not very good. Very difficult to foretell exactly when he'll expire, but you know the conditions are there. And that's a rough analogy, I think, to what we're facing here in predicting these exact tipping points, having insight into the dynamics of crowd psychology.

The fact that the movement in Egypt had no defined leader or leaders, this was a spontaneous thing fed, no question, by social media. So this is a new phenomenon, frankly, and I think we do need to improve our attention to that.

Another interesting aspect is the extent to which governments permit access to the Internet or participation in Facebook. And so we've done a lot of work on that since then. But to me, again, the tipping point—and personally, it surprised me—was when Ben Ali made a snap decision and left.

Senator WYDEN. Madam Chair, Director Panetta wants to respond.

I did want to ask one question about Iran before we wrap up because I don't think we've asked the question.

Can Director Panetta respond and I ask one last question?

Director PANETTA. If I could, because it's an important question, our job is to provide the very best, the most timely, the most relevant intelligence we can to the President and to policymakers here.

We have, over the years, long warned about the dangers in this region. I think last year alone we had about 450 intelligence reports that talked about the factors that were dangerous in the region—factors like regressive regimes, economic and political stagnation, the lack of freedoms, the lack of reforms.

And yet, at the same time, it is difficult to predict the future. The most difficult thing is to get into the head of somebody and try to figure out what that person is going to decide. We have that problem with the leaders in Iran, in North Korea and, clearly, with Ben Ali, the same issue. How do you get into someone's head when they make the decision to get out of the country?

So I think we do a pretty good job of teeing up the dangers in an area. What we do need to do is to have a better understanding and better collection on these triggers. What triggers these events? And there it's the unmet expectations. It's the large increase in numbers of youth, educated, out-of-work, that play on the Internet. What is the role of the Internet and the social network, and how does that play into demonstrations? The military's role. Generally, we would all say, after 20 or 30 years of someone in government, that the military is going to be loyal to that individual and basically support establishing security. That did not happen. In Tunisia and in Egypt, they were working both sides.

And so understanding that is really important. What I've done is, we've formed a 35-member task force in the Directorate of Intelligence to basically collect on these issues. What's the popular sentiment? What's the loyalty of the military? What's the strength of the opposition? What's the role of the Internet?

We have got to do a better job at collecting in those areas so that we can have a better sense of what might tip off these kinds of changes.

Vice Chairman CHAMBLISS. Before we leave that and you ask your Iranian question, let me make a comment and have your reaction, Director Panetta.

I'm the first to criticize the community when I think we've screwed up or made a mistake. But here, as we do look back on it now, is it not a fair statement to say that your station chiefs really did have a feeling of the uneasiness in this region of the world in virtually every country, but certainly they weren't on the Twitter list of the individuals in Egypt who sent this around. They weren't on the Facebook account. They had no idea that this individual in the marketplace was going to set himself on fire.

And I think that's what we missed, but gee whiz, I don't know how we do otherwise. But my feeling from having talked to your station chiefs—in not every country—that there was a feeling on

their part, and they had communicated that back to you in headquarters, that there are powder kegs in that part of the world.

Director PANETTA. Absolutely. Absolutely, your point is correct. Our COSs, for a period of time, have been indicating the various factors that they were concerned about that we now see playing out in the demonstrations that are taking place throughout that region.

Senator WYDEN. Thank you both. I appreciate your fleshing out the information that we have now, because obviously people are going to look at this as an important case for quite some time to come with respect to how the community reacts to a surprising set of events. And this is helpful to have it fleshed out.

I just didn't want to wrap up, Director Clapper, without getting into Iran, at least to some extent.

Your testimony said that the IC, the intelligence community, continues to judge that Iran's nuclear decisionmaking is guided by a cost-benefit approach rather than a determination to pursue nuclear weapons at all cost.

Now, last year, the administration succeeded in convincing the international community to impose new and tougher sanctions on the Iranian regime. In your view, what impact have these sanctions had on the Iranian regime today?

Director CLAPPER. Well, they clearly have had an impact on the Iranian economy, which I think is increasingly affecting the average citizen. I'm not sure the average citizen in Iran sees it that way, but that is the effect. And obviously the point here is to induce a change in behavior on the part of the Iranians.

Senator WYDEN. How seriously do you think the regime is taking the sanctions?

Director CLAPPER. I think—and I'll ask others if they want to contribute to this—but I think it is clearly a factor on their mind. As the screws have gotten tighter, I think they clearly are seeing the effect. I can't say, frankly, that that has had an effect on their nuclear program at this point.

Mr. GOLDBERG. I would add that, in areas like insurance, banking, shipping, gasoline, clearly in refining, that it's had quite an impact and that that's had an impact on the population as well.

But the last point that Director Clapper made about the direct impact is one that maybe we could discuss in another setting.

Senator WYDEN. Yes. I'm interested in a classified forum to know more about the effect it's had on the regime.

And one last point that I think we can get into in public here. Your testimony touches, Director Clapper, on the fact that the Iranian regime is expected to contain threats to its stability from the Iranian opposition but that its actions have opened up a rift between traditional conservatives and what are, in effect, the hard-line conservatives.

So if this rift were to continue, are the traditional conservatives likely to start coming over to the opposition side, the opposition movement?

Director CLAPPER. Well, at this point, I'm not real sanguine that's going to happen, and I base that on the most recent round of demonstrations on Monday, which the Iranian government managed to suppress. And, by the way, included in that suppression is suppressing access to the Internet and the social media, et al. So,

again, these regimes have gotten very sensitive, as we have, about the importance.

I think another thing I'd cite is executions have spiked at an all-time high in Iran. And so that has a chilling effect, I think, on the opposition. The two opposition leaders for this movement—there was a vote by the Majlis, over 200 of which voted to execute them.

And, of course, you have the irony, as the President cited, of the Iranian regime praising the demonstrations in the streets of Cairo and other places. It's fine elsewhere, but not here.

Senator WYDEN. Not in our neighborhood.

Director CLAPPER. Right.

Senator WYDEN. All right. Thank you all and, again, thank you for your service. It's been a helpful hearing this morning.

Thank you, Madam Chair.

Chairman FEINSTEIN. Thank you very much, Senator Wyden.

Gentlemen, thank you so much. The hearing is adjourned.

[Whereupon, at 11:55 p.m., the Committee adjourned.]

