



BIPARTISAN POLICY CENTER

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Part 1"

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Introduction

Chairman Chabot, Ranking Member Ackerman, and Members of the
Committee:

Thank you for inviting me before this Committee this afternoon to discuss
the current turmoil in the Middle East and North Africa, and the challenges and
opportunities it presents to U.S. foreign policy. I focus my testimony on U.S. interests
in the region, and how this political turbulence impacts the Iranian nuclear threat
and U.S. energy security.

U.S. Interests

One of Winston Churchill's notable traits, as I wrote in a diplomatic history
about him, was to rigidly prioritize objectives and pursue them vigorously at the
expense of lesser concerns. That is how he approached the Soviet threat, the Nazi
threat and wartime goals. As he wrote during the Second World War, "Everything
for the war, whether controversial or not, and nothing controversial that is not bona
fide needed for the war." We need to approach global affairs with the same single-

mindedness, especially during this very turbulent and fluid time in the Middle East and North Africa.

To do so, it is important to determine and spell out America's fundamental interests. I believe the top strategic interests the United States has in that part of the world are: a secure flow of oil, a secure Israel, and reducing and defeating Islamic radicalism and terror. A single threat, more than any other, would undermine all three of these interests: a nuclear Iran. Therefore, I believe preventing a nuclear Iran should remain our paramount goal and guide our policies amid the fog of events.

Of course, we must also care deeply about the preservation of innocent life, and the right of foreign people to have greater liberty, which are important American (and universal) values. These values should inspire our actions whenever possible, as they have in Libya. However, a nuclear-capable Iran would threaten not only the lives and liberties in much of the region but also U.S. strategic interests.

The Arab awakening or Arab Spring, as many have referred to it, is the result of two main factors. First, broadly, a number of the states caught up in the recent turmoil are not cohesive nations but artificial constructs. Second, and more immediately, there are distinct local factors at play, including, depending on the country, authoritarianism, corruption, lack of economic development, sectarianism, secessionism and religious extremism. Since these revolts are the result of

structural factors, these issues will not all be resolved immediately, and the upheaval will likely continue to percolate and occasionally erupt over the years. But a nuclear Iran will offer a booster shot to such instability.

Iranian Threat

Over the last few years I managed a three-volume series of reports, *Meeting the Challenge*, written by a working group co-chaired by former Senators Chuck Robb and Dan Coats and retired General Chuck Wald. In that series we argued that a nuclear Iran could not be contained as the Soviet Union was. Circumstances are very different now. The United States does not now have vis-à-vis Iran the same credibility or the same kind of allies and opponents that ensured effective containment, with great effort, in the Cold War. A nuclear Iran would set off a proliferation cascade across the Middle East, and Iran would gain the ability to transfer nuclear materials to its terrorist allies. While it continued to threaten Israel's very existence, Tehran would be able to strongly influence OPEC, dominate the energy-rich Persian Gulf, intensify its attempts to destabilize moderate Arab regimes, subvert U.S. interests and efforts in Iraq and Afghanistan, violently oppose the Middle East peace process, and support terrorism across the region. There is a very real danger that a nuclear weapons-emboldened Iran would overstep its boundaries, pulling the Middle East and the United States into a treacherous conflict.

Amid all this tension, risk and uncertainty, oil prices would likely endure a sustained rise, undercutting global economic growth.

A powerful antidote to the destabilizing influence of Iran on the region would be if freedom can spread and take root over time in Arab lands. This would prove very beneficial not only to the people involved, and the region as a whole, but also to American interests. By freedom I mean liberalization—such as greater political rights for men and women, and greater tolerance for minorities—and not elections alone, which, when conducted in the absence of basic freedoms, can at times produce greater extremism, as was the case in the West Bank and Gaza in 2006 when Hamas won the election.¹ The Arab awakening offers a hopeful beginning, but its outlook remains murky, and it is too soon to pass a verdict on it. Certainly, not all change will be for the better, at least in the near-term. For instance, the mistreatment of Coptic Christians and the reported rising strength of Muslim extremists in Egypt are very disturbing.

A change of power in Yemen could also lead to greater threats. The U.S. Government and the Gulf Cooperation Council countries have reportedly signaled they would prefer for President Ali Abdullah Saleh to step down. That is an understandable view; the country is in upheaval, and Saleh is not a Jeffersonian democrat or a flawless partner in the fight against terror. However, as two

¹ Please see an illuminating interview of prominent Near Eastern scholar Bernard Lewis in the *Wall Street Journal* on April 2, "The Tyrannies Are Doomed."

colleagues and I argued in a recent Bipartisan Policy Center report, *Fragility and Extremism in Yemen*, Saleh's departure could lead to prolonged internal turmoil, if not collapse of the Yemeni state, creating an even more favorable environment for al-Qaida, more piracy in the Gulf of Aden, and greater instability in Saudi Arabia.

Yet, despite the potential of these public uprisings to bring meaningful political reform to the region, in reality the past few months of Arab revolution and turmoil have generally been very beneficial to Iran. Lebanon may soon have a pro-Hezbollah government, after the Iran-allied terrorist organization toppled the pro-Western prime minister, Saad Hariri (currently a caretaker prime minister). Many Sunni-led countries allied with the United States and opposed to Iran have experienced significant internal turmoil. Egypt's Hosni Mubarak, a key anchor in the region's anti-Iran coalition, is gone. Bahrain's leadership continues to face opposition from its majority Shia population, drawing Saudi troops and Iranian agitation. Shiites in the oil-rich Eastern Provinces in Saudi Arabia have staged intermittent demonstrations. Jordan too has experienced demonstrations. There have also been demonstrations in Iran but the regime responded by clamping down harder, and evinces continued willingness and ability to harshly, even bloodily, put down any opposition.

However, the collapse of the Assad regime in Syria would be a huge setback to Iran. There are many possible post-Assad scenarios in majority-Sunni Syria, such

as another Alawite regime, a Muslim Brotherhood government, or even state collapse. None of these would serve U.S. interests. But since Assad has pursued a course so inimical to U.S. interests—allying closely with Iran, supporting Hezbollah in Lebanon, funneling jihadists to Iraq, and supporting Palestinian terrorists—there is good reason to believe that almost any successor regime could be no worse than Assad's. Therefore, at a minimum the United States should offer greater rhetorical support for the courageous demonstrators in Syria.

The recent turmoil seems to have frayed the anti-Iran coalition in the region. By all accounts, our Sunni Arab and Israeli allies were displeased with how the United States initially handled the recent events in the region, undercutting their faith in American support and leadership. Feeling less secure, leaders of these countries are less likely to take constructive risks (the Arabs for reform, and Israelis for peace with the Palestinians) and may even look to hedge their risks by improving their relationships with some of our rivals. The disappointment of our allies also invites more provocations from our enemies, such as Iran, as they sense a diminished U.S. commitment to its friends. Hopefully, Secretary of Defense Robert Gates' trip to the region last week and National Security Advisor Tom Donilon's trip this week have begun to address this, but it will take time and require tangible actions on our part.

Moreover, the turmoil and the conflict in Libya have diverted international attention from Iran's continued nuclear development. This follows an apparent over-confidence here and abroad that the Stuxnet virus and killing of Iranian scientists have delayed Iran's nuclear program by years. On the contrary, Iran has not only raised the efficiency and output of its antiquated (IR-1) centrifuges by over 50% in the last year, it is also, as announced just yesterday, making ready to install a new generation of centrifuges that could enrich uranium up to 6 times faster. These advances mean that, according to estimates (based on IAEA data) made by my colleague, Blaise Misztal, Associate Director at the Bipartisan Policy Center, in consultation with outside expert Greg Jones, which I have appended to my testimony for your consideration, Iran could produce enough highly enriched uranium (HEU) for a nuclear device in as little as 65 days.

Going forward, the United States needs again to re-focus on preventing Iran from developing nuclear weapons. The last negotiations by the P5 + 1 countries with Tehran earlier this year ended in failure, despite new, more robust sanctions passed by Congress, the United Nations Security Council and the European Union last summer. We can expect any future negotiations will end the same way, unless we first raise significantly the pressure on Tehran, thereby increasing our leverage.

I applaud Congress for passing tough Iran sanctions legislation last year, and President Obama for signing it, which has clearly added pressure on the Iranian

regime. However, given that Iran continues to develop its nuclear weapons capability, that pressure so far clearly has not been sufficient. The Administration needs to enforce the sanctions already on the books, and Congress should consider ideas for new sanctions. I am concerned, however, about sanctions efforts that will have little or no impact on Iran and thereby offer false hope and waste precious time. My initial sense is that sanctioning Iranian oil exports, as some have suggested, would fall into that category of counter-productive measures.

It is time for U.S. policy toward Iran to evolve into a new phase. President Obama pledged in February 2009 at Camp Lejeune, "to use all elements of American power to prevent Iran from developing a nuclear weapon." In practice, the Administration first just focused on diplomacy, then sanctions and diplomacy. In the Bipartisan Policy Center's Iran reports, we have always advocated pursuit of a concurrent triple-track policy of diplomacy, sanctions, and a visible and credible preparation for a military option. The last element has been noticeably missing, aside from the de rigueur statement of "all options are on the table," often followed by remarks about how risky military action would be.

Certainly, military action is not desirable; in fact, it involves a host of serious risks. The best solution, of course, would be regime change, and we should do what we can rhetorically and in action to support the political opposition in Iran. Still, we must keep expectations in check. We cannot be sure who would lead a new

government; the Green movement includes leaders who presided over Iran's nuclear program and who opposed a possible swap deal 1.5 years ago. In any case, it seems unlikely that the regime will fall before it develops nuclear weapons capability. With regime change unlikely to resolve Iran's nuclear threat, we should consider stricter sanctions and pursue visible and credible preparation of military action. That combination might convince the Iranian regime that it is in its interest to negotiate a cessation of its nuclear development. Other possible outcomes, if we fail to act, include Iran achieving nuclear weapons, the worst scenario, and Israel or another state launching its own military strike, the second worst scenario.

To signal its determination, the United States should: augment the Fifth Fleet presence in the Persian Gulf and Gulf of Oman, including the deployment of an additional carrier battle group and minesweepers to the waters off Iran; conduct broad exercises with its allies in the Persian Gulf; and intensify our enhancement of the defensive and offensive military capabilities of our Persian Gulf allies. If such pressure fails, we might consider blockading refined petroleum imports into Iran. A blockade would effectively be an act of war, however, and the U.S. and its allies would have to prepare for its consequences. If all else fails, the U.S. military is capable of launching an effective targeted strike on Iranian nuclear and military facilities. This would only set back Iranian nuclear development, not end it, and it would require continued vigilance in subsequent years. Force should be our last option, but, as noted, Iran's nuclear program has

accelerated over the past year and we have no choice but to address it. I believe it would be constructive for Congress and the Administration to begin soon a public discussion on the next phase of our Iran policy.

Energy Security

Energy supply and prices are important elements of our economy and national security, and I will now address what the turmoil means for the global oil market. There are four main implications, separately relating to: 1) production; 2) transit; 3) demand; and 4) revenue. All four factors will likely contribute to higher oil prices.

Immediate threats to oil production obviously are most acute in those oil producing and exporting nations suffering turmoil, such as Libya. Out of global demand of approximately 88 million barrels per day, Libya produced about 1.6 million barrels per day and Yemen about 300,000 barrels per day. While these are not large numbers, there is no spare global capacity to replace the high quality of Libyan crude oil. More important, we should expect further oil production disruptions over the years as the Arab awakening plays out. Further, we must expect, as a leading energy analyst, Edward Morse, has pointed out, that any energy-exporting country experiencing conflict will not restore quickly its energy production to pre-conflict levels. Such has been in the case in recent decades: Iran's current oil production is only about 60% percent of its peak output under the Shah

in 1974; Iraq's output is only 77 percent of the 1979 peak, the year prior to the beginning of the Iran-Iraq war that began Iraq's economic spiral; Venezuela production is only about 69 percent of the pre-Chavez peak in 1998; and Russia's output is 87 percent of the 1987 Soviet-era peak, after dropping significantly in the 1990s. Of these four examples, only Iraqi oil production has been recently trending upward. Each country has distinct reasons for its output problems, but often political turmoil leads to long-term declines in the country's oil industry.

The second implication for the energy market is that transit will become more risky. There are three key chokepoints in the region: a) the Strait of Hormuz, through which 17 million barrels per day, or one-third of global oil trade, passes; b) Suez Canal and Sumed Pipeline in Egypt, through which 3-4 million barrels per day pass; and c) Bab el-Mandeb, between Yemen on one side and Somalia, Djibouti and Eritrea on the other, through which over 3 million barrels per day of oil pass. Conflicts in any of these areas will disrupt the flow of oil. I'm sure the Committee is most familiar with the first two chokepoints so I will just comment on the last one. Already there are a great many pirate attacks off the Yemeni coast, since Yemen does not secure its borders well and, despite hundreds of millions of dollars of U.S. military assistance, does not have a functional coast guard. Somalia, of course, is a failed state and a base for pirates. If President Saleh loses further grip of Yemen or

steps down, there will likely be even more of a power vacuum in an already very fragile state, and oil tankers will be further endangered.

A third factor is that domestic oil demand in the many oil-exporting countries in the region will likely continue to rise, meaning that there will be less oil to export than otherwise. The reason, as Morse has argued, is that regimes in the region with energy resources will continue to subsidize domestic fuel consumption lest a domestic price spike create more political turmoil. This will lead to continued growth in consumption. In fact, oil-exporting countries in the Mideast have been among the leading sources of global energy consumption growth over the last decade. Iran and Iraq, notably, have reduced their gasoline subsidies in recent years.

The fourth factor, which is closely related to the third, is the likelihood that oil-exporting regimes, fearful of domestic uprisings, will likely seek higher prices in order to maximize revenue and lubricate the social welfare system. For example, the Saudi king has committed in recent months to about \$130 billion in additional social spending, which equates to about two-thirds of the country's approximately \$200 billion in oil export revenue in 2010. Other countries have also committed to do the same, though in smaller quantities. This means that these countries need higher oil prices to fund their additional social programs. The Saudis and some other countries with large energy reserves and smaller populations have historically sought relatively more moderate prices than OPEC price hawks like Iran and Venezuela.

That might still be relatively true but the former countries' desired price range has now risen.

A rise in the price of oil is obviously bad for the economies of the United States and other net oil-importers, but it also renders highly unlikely any prospect that Gulf Arabs would seek to undercut Iran's economy by supplying more oil and lowering prices. Iran's oil production has been declining—about 17 percent over the last three years--and it can only increase its revenue through higher oil prices; about half of state revenue derives from oil exports. No one non-military factor would likely limit Iran's revenue and therefore hinder its nuclear program as much as low oil prices. But the turmoil in the region makes that prospect far less likely.

One recent development in the region that can partly offset these bullish implications for oil price is the growth in Iraq's energy production. It is vital for the United States and global economy for that growth to continue and be sustained. As leading energy expert Lawrence Goldstein said, "A supply increase anywhere is a price decline everywhere." The least developed OPEC country, Iraq offers the greatest growth potential in oil supply over the next decade, as well as the possibility of supplying Europe and Asia with significant quantities of natural gas and liquid natural gas. A relatively stable Iraq would be an energy superpower. Its oil reserves could equal Saudi Arabia's, and its production capacity could potentially equal current Saudi capacity. After making deals for oil production in 2009, oil

companies are investing a great deal of money and Iraqi oil output is rising, finally breaking out of a production range it has endured since 2004. Iraq's challenge, beyond maintaining political stability and security, will be to expand the capacity of existing oil export routes to Turkey and the Persian Gulf as well as to diversify into new routes such as Jordan, which can serve both Asian and Western markets. Diversification of exports is key for Iraq's energy security as well as the global economy's. Iraq is intending to build a new export line through Syria, which makes little sense from an energy standpoint; more crude oil can be shipped to the Mediterranean by expanding the Turkish pipeline, while growing demand is in Asia. A Syrian line also would undermine U.S. strategic interests since it would offer greater revenue to the Assad regime and help it stay afloat in these turbulent times. The Obama Administration should discourage Baghdad from pursuing a Syrian pipeline. More important, it is vital for the U.S. Fifth Fleet to continue to help protect Iraq's offshore oil export terminals until Iraq's navy is strong enough to do so alone. This should be part of the discussions with Iraq about possible post-2011 U.S. military deployments there.

Whatever the United States can do to support and secure Iraq's energy growth will not only facilitate Iraq's economic development but will also help the U.S. and global economies. Moreover, in the zero-sum game of the global oil market, growth in Iraq's oil and gas sector will come at the expense of Iran. Constrained by

declining output volume, Iran's energy revenues can only grow significantly by higher prices, while Iraq—after long under-utilizing its vast potential--has demonstrated its interest in improving its economy through increased export volume. Iranian and Iraqi goals are in direct conflict, and it is an important U.S. interest to help Iraq and hurt Iran.

Conclusion

In conclusion, the events in the Mideast and North Africa, offer some long-term hope for liberalization of the Middle East, which would surely benefit the region and the United States. However, in the near and medium terms, Arab world political turmoil will likely lead to lower oil supplies and higher oil prices, to the benefit of Iran. As possible, we should nurture liberalization in the region, but our response to developments in the region must nevertheless be guided, first and foremost, by the need to prevent Iran from developing nuclear weapons capability, our primary strategic threat. Other strategic goals are important but, for the foreseeable future, they are secondary.

Mr. Chairman, thank you again for the opportunity to address this Committee.