

**Annual Threat Assessment of the
Intelligence Community
for the House Armed Services Committee**

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INTELLIGENCE COMMUNITY
ANNUAL THREAT ASSESSMENT**

**UNCLASSIFIED
STATEMENT FOR THE RECORD**

INTRODUCTION

Chairman Skelton, Ranking Member Hunter, Members of the Committee, thank you for the invitation to offer my assessment of threats to US national security. I am pleased to be accompanied today by Robert Cardillo, Deputy Director for Analysis, DIA and John Kringen, Director of Intelligence, CIA.

Before I talk about specific threats, I want to raise an issue of immediate importance for the functioning of the Intelligence Community and protection of the nation. The authorities granted by the Protect America Act (PAA)—which temporarily closed gaps in our intelligence collection and allowed the Intelligence Community to conduct foreign intelligence surveillance—are critical to our intelligence efforts to protect the Nation from current threats. Briefly, some of the most important benefits include:

- Better understanding of international al-Qa'ida networks;
- Greater insight into future terrorist plans that have allowed us to disrupt attacks;
- More extensive knowledge of instructions to foreign terrorist associate about entering the United States
- Information on efforts to obtain guns and ammunition
- Knowledge on terrorist money transfers.

Expiration of the Act would lead to the loss of important tools the Intelligence Community relies on to discover the plans of our enemies. Merely extending the PAA without addressing retroactive liability protection for the private sector will likely have far reaching consequences for the Intelligence Community. At the request of members of Congress, the DNI has provided letters discussing these matters in greater depth.

For almost two years, senior leaders of the IC have testified in both open and closed hearings about the critical role of private parties in ensuring our citizens are safe, and the need to provide liability protection to those who provided assistance after the attacks of September 11. If we are not able to address this issue, I believe it will severely degrade the capabilities of our Intelligence Community to carry out its core missions of providing warning and protecting the country.

In turning to the threats, the judgments that I will offer the Committee in these documents and in my responses to your questions are based on the efforts of thousands of patriotic, highly skilled professionals, many of whom serve in harm's way. I am pleased to report that the Intelligence Community is even better than it was last year as a result of the continuing implementation of reforms required by the Intelligence Reform and Terrorism Prevention Act of 2004. This Statement is, in part, a product of our moving forward with the transformation of US intelligence, including more innovative and rigorous analysis and wider and more far-reaching collaboration.

You will see from the testimony that many of the key topics I touch on are not traditional "national security" topics.

Globalization has broadened the number of threats and challenges facing the United States. For example, as government, private sector, and personal activities continue to move to networked operations and our digital systems add ever more capabilities, our vulnerability to penetration and other hostile cyber actions grows. The nation, as we indicated last year, requires more from our Intelligence Community than ever before and consequently we need to do our business better, both internally, through greater collaboration across disciplines and externally, by engaging more of the expertise available outside the Intelligence Community.

Many of the analytic judgments I present here have benefited from the increasing integration of collection and analysis. Our systematic effort to synchronize requirements across the national intelligence, defense, Homeland security and federal law enforcement communities ensures collection assets will be better utilized and the collection community will be able to mount efforts to fill the gaps and needs of analysts. This more integrated Community approach to analysis and collection requirements is part of the DNI's plan to transition the IC from a federation of independent intelligence organization to a more integrated enterprise; the beginning results of this new approach are reflected in the more nuanced and deeper analysis of the challenges and threats facing the US.

Against this backdrop, I will focus my statement on the following issues:

- The continuing global terrorist threat, but also the setbacks the violent extremist networks are experiencing;
- The significant gains in Iraqi security since this time last year and the developing political and economic improvements;
- The continuing challenges facing us in Afghanistan and in Pakistan, where many of our most important interests intersect;
- The persistent threat of WMD-related proliferation:
 - Despite halting progress towards denuclearization, North Korea continues to maintain nuclear weapons;
 - Despite the halt through at least mid-2007 to Iran's nuclear weapons design and covert uranium conversion

and enrichment-related work, Iran continues to pursue fissile material and nuclear-capable missile delivery systems.

- The vulnerabilities of the US information infrastructure to increasing cyber attacks by foreign governments, nonstate actors and criminal elements;
- The growing foreign interest in counterspace programs that could threaten critical US military and intelligence capabilities;
- Issues of political stability and of national and regional conflict in Europe, the Horn of Africa, the Middle East, and Eurasia;
- Growing humanitarian concerns stemming from the rise in food and energy prices for poorer states;
- Concerns about the financial capabilities of Russia, China, and OPEC countries and the potential use of their market access to exert financial leverage to achieve political ends.

TERRORISM

Let me start by highlighting a few of our top successes in the past year. Most importantly, there was no major attack against the United States or most of our European, Latin American, East Asia allies and partners. This was no accident.

Last summer, for example, with our allies, we unraveled terrorist plots linked to al-Qa'ida and its associates in Denmark and Germany. We were successful because we were able to identify key plotters. We worked with our European partners to monitor the plotters and disrupt their activities. In addition, our partners throughout the Middle East and elsewhere continued to attack aggressively terrorist networks recruiting, training, and planning to strike American interests. The death last week of Abu Layth al-Libi, al-Qa'ida's charismatic senior military commander and a key link between al-Qa'ida and its affiliates in North Africa, is the most serious blow to the group's top leadership since the December 2005 death of then external operations chief Hamza Rabi'a.

Al-Qa'ida in Iraq (AQI) suffered major setbacks last year, although it still is capable of mounting lethal attacks. Hundreds of AQI leadership, operational, media, financial, logistical,

weapons, and foreign fighter facilitator cadre have been killed or captured. With much of the Sunni population turning against AQI, its maneuver room and ability to operate have been severely constrained. AQI's attack tempo, as measured by numbers of suicide attacks, had dropped by more than half by year's end after approaching all time highs in early 2007. We see indications that al-Qa'ida's global image is beginning to lose some of its luster; nonetheless, we still face multifaceted terrorist threats.

AL-QA'IDA

Al-Qa'ida and its terrorist affiliates continue to pose significant threats to the United States at home and abroad, and al-Qa'ida's central leadership based in the border area of Pakistan is its most dangerous component. Last July, we published a National Intelligence Estimate titled, "*The Terrorist Threat to the US Homeland*," which assessed that al-Qa'ida's central leadership in the past two years has been able to regenerate the core operational capabilities needed to conduct attacks in the Homeland:

- Al-Qa'ida has been able to retain a safehaven in Pakistan's Federally Administered Tribal Areas (FATA) that provides the organization many of the advantages it once derived from its base across the border in Afghanistan, albeit on a smaller and less secure scale. The FATA serves as a staging area for al-Qa'ida's attacks in support of the Taliban in Afghanistan as well as a location for training new terrorist operatives, for attacks in Pakistan, the Middle East, Africa, Europe and the United States.
- Using the sanctuary in the border area of Pakistan, al-Qa'ida has been able to maintain a cadre of skilled lieutenants capable of directing the organization's operations around the world. It has lost many of its senior operational planners over the years, but the group's adaptable decisionmaking process and bench of skilled operatives have enabled it to identify effective replacements.
- Al-Qa'ida's top leaders Usama Bin Ladin and Ayman al-Zawahiri continue to be able to maintain al-Qa'ida's unity and its focus on their strategic vision of confronting our allies and us with mass casualty attacks around the globe. Although security concerns preclude them from the day-to-day running of the organization, Bin Ladin and Zawahiri regularly pass inspirational messages and specific

operational guidance to their followers through public statements.

- Al-Qa'ida is improving the last key aspect of its ability to attack the US: the identification, training, and positioning of operatives for an attack in the Homeland. While increased security measures at home and abroad have caused al-Qa'ida to view the West, especially the US, as a harder target, we have seen an influx of new Western recruits into the tribal areas since mid-2006.

We assess that al-Qa'ida's Homeland plotting is likely to continue to focus on prominent political, economic, and infrastructure targets designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks, and/or fear among the population.

CBRN THREAT FROM AL-QA'IDA

We judge use of a conventional explosive to be the most probable al-Qa'ida attack scenario because the group is proficient with conventional small arms and improvised explosive devices and is innovative in creating capabilities and overcoming security obstacles. That said, al-Qa'ida and other terrorist groups are attempting to acquire chemical, biological, radiological, and nuclear weapons and materials (CBRN). We assess al-Qa'ida will continue to try to acquire and employ these weapons and materials; some chemical and radiological materials and crude weapons designs are easily accessible, in our judgment.

AL-QA'IDA AFFILIATES

Al-Qa'ida's affiliates from Africa to Southeast Asia also pose a significant terrorist threat. I will discuss the success we are having against al-Qa'ida in Iraq (AQI) as part of the larger discussion of the Intelligence Community's analysis of the Iraq situation, but here I would like to highlight that AQI remains al-Qa'ida's most visible and capable affiliate. I am increasingly concerned that as we inflict significant damage on al-Qa'ida in Iraq, it may shift resources to mounting more attacks outside of Iraq.

Although the ongoing conflict in Iraq will likely absorb most of AQI's resources over the next year, AQI has leveraged its broad external networks—including some reaching into Europe—in support of external operations. It probably will continue to devote some effort towards honoring Bin Ladin's request in 2005 that AQI attempt to strike the United States,

affirmed publicly by current AQI leader Abu Ayyub al-Masri in a November 2006 threat against the White House.

- AQI tactics, tradecraft, and techniques are transmitted on the Internet, but AQI documents captured in Iraq suggest that fewer than 100 AQI terrorists have moved from Iraq to establish cells in other countries.

AQIM. Al-Qa'ida's other robust affiliate, al-Qa'ida in the Lands of the Islamic Maghreb (AQIM), is the most active terrorist group in northwestern Africa. We assess it represents a significant threat to US and European interests in the region. AQIM has continued to focus primarily on Algerian Government targets, but since its merger with al-Qa'ida in September 2006, the group has expanded its target set to include US, UN, and other interests. AQIM likely got a further boost when the al-Qa'ida central leadership announced last November that the Libyan Islamic Fighting Group united with al-Qa'ida under AQIM's leadership. Two simultaneous suicide car bomb attacks in Algiers in December killed nearly 70 people and marked AQIM's highest profile act of violence to date. Improvements in AQIM's use of improvised explosive devices (IEDs) suggest the group is acquiring knowledge transmitted from extremists in Iraq.

AQIM traditionally has operated in Algeria and northern Mali and has recruited and trained an unknown, but probably small, number of extremists from Tunisia, Morocco, Nigeria, Mauritania, Libya, and other countries. Although the degree of control that AQIM maintains over former trainees is unclear, the IC assesses some of these trainees may have returned to their home countries to plot attacks against local and Western interests.

Other Affiliates Worldwide. Other al-Qa'ida regional affiliates kept a lower profile in 2007, but we judge that they remain capable of conducting attacks against US interests. Al-Qa'ida is active on the Arabian Peninsula and presents a long-term threat to both Western and host nation interests there, particularly in Saudi Arabia, UAE, and Yemen. In 2007, Saudi authorities detained over 400 extremists, highlighting both the threat and the Kingdom's commitment to combating it. We judge al-Qa'ida will continue to attempt attacks in the Arabian Peninsula, particularly in Saudi Arabia, Yemen, United Arab Emirates, and Bahrain.

The Intelligence Community (IC) assesses al-Qa'ida-associated groups and networks in **Lebanon** pose a growing threat to Western interests in the Levant. In **East Africa**, the Ethiopian invasion of Somalia disrupted al-Qa'ida in East Africa (AQEA) operations and activities, but senior AQEA operatives responsible for the 1998 US Embassy bombings and the 2002 attacks in Mombassa, Kenya, remain at large. The IC assesses Jemaah Islamiya (JI) in Indonesia and the Abu Sayyaf Group (ASG) in the Philippines—which have historic links to al-Qa'ida and have killed over 400 people—are the two terrorist groups posing the greatest threat to US interests in **Southeast Asia**. The IC assesses that **Pakistan-based** Lashkar-e-Tayyiba (LT) and other Kashmir-focused groups will continue attack planning and execution in India. Shia and Hindu religious observances are possible targets, as are transportation networks and government buildings. We judge Kashmir-focused groups will continue to support the attacks in Afghanistan, and operatives trained by the groups will continue to feature in al-Qa'ida transnational attack planning.

BUT AL-QA'IDA'S REPUTATION IS DIMMING

The brutal attacks against Muslim civilians unleashed by AQI and AQIM and the conflicting demands of the various extremist agendas are tarnishing al-Qa'ida's self-styled image as the extremist vanguard. Over the past year, a number of religious leaders and fellow extremists who once had significant influence with al-Qa'ida have publicly criticized it and its affiliates for the use of violent tactics.

- Usama Bin Ladin's public statement about Iraq in October—in which he admitted that AQI made mistakes and urged it to reconcile with other Iraqi insurgent groups—provoked controversy on extremist Internet discussion forums. Likewise, deputy al-Qa'ida chief Ayman al-Zawahiri has been criticized by supporters for perceived contradictions in his public statements about HAMAS and softness toward Iran and the Shia.

THE "HOMEGROWN" THREAT

Over the next year, attacks by "homegrown" extremists inspired by militant Islamic ideology but without operational direction from al-Qa'ida will remain a threat to the United States or against US interests overseas. The spread of radical Salafi Internet sites that provide religious justification for attacks, increasingly aggressive and violent anti-Western rhetoric and actions by local groups, and the growing number of radical, self-generating cells in Western countries that identify

with violent Salafi objectives, all suggest growth of a radical and violent segment among the West's Muslim populations. Our European allies regularly tell us that they are uncovering new extremist networks in their countries.

While the threat from such homegrown extremists is greater in Europe, the US is not immune. The threat here is likely to be fueled in part by propaganda and mischaracterizations of US foreign policy as harmful to Muslims, rather than by any formal assistance from al-Qa'ida or other recognized groups. The al-Qa'ida-propagated narrative of an "us versus them" struggle serves both as a platform and a potential catalyst for radicalization of Muslims alienated from the mainstream US population.

A small, but growing portion of al-Qa'ida propaganda, is in English and is distributed to an American audience—either in translated form or directly by English-speaking al-Qa'ida members like Adam Gadahn, the American member of al-Qa'ida who, in early-January, publicly urged Muslims to use violence to protest the President's Middle East trip. Bin Ladin's September 2007 "message to the American people" and Zawahiri's May 2007 interview include specific US cultural and historical references almost certainly meant to strike a chord with disaffected US listeners.

Disrupted plotting over the past 14 months in New Jersey and Illinois highlights the diverse threat posed by Homeland-based radical Muslims inspired by extremist ideology. A group of European and Arab Muslim immigrants arrested last May for planning to attack Fort Dix, New Jersey, used a group member's familiarity with the US Army base to determine their target. In Illinois, the FBI arrested US Muslim convert Derrick Shareef in December 2006 as he attempted to obtain weapons for a self-planned, self-executed terrorist attack against a shopping mall in Rockford.

To date, cells detected in the United States have lacked the level of sophistication, experience, and access to resources of terrorist cells overseas. Their efforts, when disrupted, largely have been in the nascent phase, and authorities often were able to take advantage of poor operational tradecraft. However, the growing use of the internet to identify and connect with networks throughout the world offers opportunities to build relationships and gain expertise that previously were available

only in overseas training camps. It is likely that such independent groups will use information on destructive tactics available on the Internet to boost their own capabilities.

**WMD PROLIFERATION:
KEY STATES OF CONCERN**

In addition to terrorism, the ongoing efforts of nation-states and terrorists to develop and/or acquire dangerous weapons and delivery systems constitute major threats to the safety of our nation, our deployed troops, and our friends. We are most concerned about the threat and destabilizing effect of nuclear proliferation. We also are concerned about the threat from biological and chemical agents.

WMD use by most nation states is traditionally constrained by the logic of deterrence and by diplomacy, but these constraints may be of less utility in preventing the use of mass-effect weapons by terrorist groups. The time when only a few states had access to the most dangerous technologies has been over for many years. Technologies, often dual-use, circulate easily in our globalized economy, as do the scientific personnel who design and use them. The IC works with other elements of the US Government on the safeguarding and security of nuclear weapons and fissile material, pathogens, and chemical weapons in select countries.

We assess that some of the countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. We also are focused on the potential acquisition of nuclear, chemical, and/or biological weapons—or the production technologies and materials necessary to produce them—by states that do not now have such programs, by terrorist organizations such as al Qa'ida, insurgents in Iraq, and by criminal organizations, acting alone or via middlemen. We also are concerned about rogue or criminal elements willing to supply materials and technology—alone or with a network—without their government's knowledge.

We are especially concerned about the potential for terrorists to gain access to WMD-related materials or technology. Many countries in the international community share these concerns. Therefore we are working closely with other elements of the US Government to enhance the safety and security of nuclear weapons and fissile material and the detection of WMD materials.

**IRAN'S AND NORTH
KOREA'S WMD AND
MISSILE PROGRAMS**

The Iranian and North Korean regimes flout UN Security Council restrictions on their nuclear programs.

Over the past year we have gained important new insights into **Tehran's** activities related to nuclear weapons and the Community recently published a National Intelligence Estimate on Iranian intent and capabilities in this area. I want to be very clear in addressing the Iranian nuclear capability. First, there are three parts to an effective nuclear weapons capability:

1. Production of fissile material
2. Effective means for weapons delivery
3. Design and weaponization of the warhead itself

We assess in our recent NIE on this subject that warhead design and weaponization were halted, along with covert military uranium conversion- and enrichment-related activities. Declared uranium enrichment efforts, which will enable the production of fissile material, continue. This is the most difficult challenge in nuclear production. Iran's efforts to perfect ballistic missiles that can reach North Africa and Europe also continue.

We remain concerned about Iran's intentions and assess with moderate-to-high confidence that Tehran at a minimum is keeping open the option to develop nuclear weapons. We have high confidence that Iranian military entities were working under government direction to develop nuclear weapons until fall 2003. Also, Iranian entities are continuing to develop a range of technical capabilities that could be applied to producing nuclear weapons. Iran continues its efforts to develop uranium enrichment technology, which can be used both for power reactor fuel and to produce nuclear weapons. And, as noted, Iran continues to deploy ballistic missiles inherently capable of delivering nuclear weapons, and to develop longer-range missiles. We also assess with high confidence that even after fall 2003 Iran has conducted research and development projects with commercial and conventional military applications—some of which would also be of limited use for nuclear weapons.

We judge with high confidence that in fall 2003, Tehran halted its nuclear weapons design and weaponization activities, as well as its covert military uranium conversion and enrichment-related activities, for at least several years. Because

of intelligence gaps, DOE and the NIC assess with only moderate confidence that all such activities were halted. We assess with moderate confidence that Tehran had not restarted these activities as of mid-2007, but since they comprised an unannounced secret effort which Iran attempted to hide, we do not know if these activities have been restarted.

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

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

We assess with moderate confidence that convincing the Iranian leadership to forgo the eventual development of nuclear weapons will be difficult given the linkage many within the leadership see between nuclear weapons development and Iran's key national security and foreign policy objectives, and given Iran's considerable effort from at least the late 1980s to 2003 to develop such weapons.

We continue to assess with moderate-to-high confidence that Iran does not currently have a nuclear weapon. We continue to assess with low confidence that Iran probably has imported at least some weapons-usable fissile material, but still judge with moderate-to-high confidence it has not obtained enough for a nuclear weapon. We cannot rule out that Iran has acquired from abroad—or will acquire in the future—a nuclear weapon or enough fissile material for a weapon. Barring such

acquisitions, if Iran wants to have nuclear weapons it would need to produce sufficient amounts of fissile material indigenously—which we judge with high confidence it has not yet done.

Iran resumed its declared centrifuge enrichment activities in January 2006, despite the 2003 halt in its nuclear weapons design and weaponization activities. Iran made significant progress in 2007 installing centrifuges at Natanz, but we judge with moderate confidence it still faces significant technical problems operating them.

- We judge with moderate confidence that the earliest possible date Iran would be technically capable of producing enough highly enriched uranium (HEU) for a weapon is late 2009, but that is very unlikely.
- We judge with moderate confidence Iran probably would be technically capable of producing enough HEU for a weapon sometime during the 2010-2015 time frame. INR judges Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems. All agencies recognize the possibility that this capability may not be attained until *after* 2015.

We know that Tehran had a chemical warfare program prior to 1997, when it declared elements of its program. We assess that Tehran maintains dual-use facilities intended to produce CW agent in times of need and conducts research that may have offensive applications. We assess Iran maintains a capability to weaponize CW agents in a variety of delivery systems.

We assess that Iran has previously conducted offensive BW agent research and development. Iran continues to seek dual-use technologies that could be used for biological warfare.

North Korea's nuclear weapons and missile programs threaten to destabilize a region that has known many great power conflicts and comprises some of the world's largest economies. North Korea has already sold ballistic missiles to several Middle Eastern countries and to Iran. We remain concerned North Korea could proliferate nuclear weapons abroad.

While North Korea's military almost certainly could not defeat South Korea, it could inflict hundreds of thousands of casualties and severe damage on the South. Missile delivery systems, including several hundred deployed Scud and No Dong missiles, which were flight-tested in July 2006, add to the threat to South Korea and extend it to Japan, including to US bases in both those countries. The North's October 2006 nuclear test supports our previous assessment that it had produced nuclear weapons. The test produced a nuclear yield of less than one kiloton, well below the yield of most states' first nuclear tests. Prior to the test, North Korea produced enough plutonium for at least a half dozen nuclear weapons.

The IC continues to assess that North Korea has pursued a uranium enrichment capability at least in the past, and judges with at least moderate confidence that the effort continues today.

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

- We assess that North Korea's Taepo Dong-2, which failed in its flight-test in July 2006, probably has the potential capability to deliver a nuclear-weapon-sized payload to the continental United States. But we assess the likelihood of successful delivery would be low absent successful testing.

NORTH KOREA AND SIX PARTY TALKS

North Korea conducted missile tests and its first nuclear detonation in October 2006. Since returning to the negotiating table last year, Pyongyang has reaffirmed its September 2005 commitment in principle to full denuclearization, shut down its nuclear facilities at Yongbyon, and begun the process of disabling those facilities. But the North missed a 31 December deadline for a full declaration of its nuclear programs, as had been agreed to last October. The regime appears stable, but persistent economic privation and natural disasters—such as the severe floods last August—and uncertainty about succession arrangements create the potential for domestic unrest with unpredictable consequences.

**NUCLEAR AND
COMPETITORS INDIA AND
PAKISTAN**

In assessing the nuclear competition between India and Pakistan, we note that missile tests and new force deployments over the past three years have not affected the ongoing political dialogue. Although both New Delhi and Islamabad are fielding a more mature strategic nuclear capability, they do not appear to be engaged in a Cold War-style arms race for numerical superiority.

**PAKISTAN NUCLEAR
SECURITY**

We judge the ongoing political uncertainty in Pakistan has not seriously threatened the military's control of the nuclear arsenal, but vulnerabilities exist. The Pakistan Army oversees nuclear programs, including security responsibilities, and we judge that the Army's management of nuclear policy issues—to include physical security—has not been degraded by Pakistan's political crisis.

THE CYBER THREAT

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

**STATE AND NON-STATE
CYBER CAPABILITIES**

Our information infrastructure—including the internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries—increasingly is being targeted for exploitation and potentially for disruption or destruction, by a growing array of state and non-state adversaries. Over the past year, cyber exploitation activity has grown more sophisticated, more targeted, and more serious. The Intelligence Community expects these trends to continue in the coming year.

We assess that nations, including Russia and China, have the technical capabilities to target and disrupt elements of the US information infrastructure and for intelligence collection. Nation states and criminals target our government and private sector information networks to gain competitive advantage in the commercial sector. Terrorist groups—including al-Qa'ida, HAMAS, and Hizballah—have expressed the desire to use

cyber means to target the United States. Criminal elements continue to show growing sophistication in technical capability and targeting, and today operate a pervasive, mature on-line service economy in illicit cyber capabilities and services available to anyone willing to pay.

Each of these actors has different levels of skill and different intentions; therefore, we must develop flexible capabilities to counter each. It is no longer sufficient for the US Government to discover cyber intrusions in its networks, clean up the damage, and take legal or political steps to deter further intrusions. We must take proactive measures to detect and prevent intrusions from whatever source, as they happen, and before they can do significant damage.

At the President's direction, an interagency group reviewed the cyber threat to the US and identified options regarding how best to integrate US Government defensive cyber capabilities; how best to optimize, coordinate and de-conflict cyber activities; and how to better employ cyber resources to maximize performance. This tasking was fulfilled with the January 2008 issuance of NSPD-54/HSPD-23, which directs a comprehensive national cybersecurity initiative. These actions will help to deter hostile action in cyber space by making it harder to penetrate our networks.

AFGHANISTAN

In 2007 the number of attacks in Afghanistan's Taliban-dominated insurgency exceeded that of the previous year, in part because NATO and Afghan forces undertook many more offensive operations. Efforts to improve governance and extend development were hampered by a lack of security in some areas and a general lack of government capacity and competency. The ability of the Karzai government, NATO, and the United States to defeat the Taliban will determine the continued support of the Afghan people for the government and the international community. Afghan leaders also must deal with endemic corruption and pervasive poppy cultivation and drug trafficking. Ultimately, defeating the insurgency will depend heavily on the government's ability to improve security, deliver services, and expand development for economic opportunity.

SECURITY DETERIORATION IN THE SOUTH

Although international forces and the Afghan National Army continue to score tactical victories over the Taliban, the security situation has deteriorated in some areas in the south, and Taliban forces have expanded their operations into

previously peaceful areas of the west and around Kabul. The Taliban-dominated insurgency has expanded in scope despite operational disruption caused by International Security Assistance Force (ISAF) and Operation Enduring Freedom operations. The death or capture of three top Taliban leaders last year—their first high level losses—does not yet appear to have significantly disrupted insurgent operations.

Continued progress has been made in expanding and fielding the Afghan National Army, which as of the end of 2007 reported attaining 70 percent of its authorized 70,000 end strength. While this is an improvement, the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of significant independent action. The Afghan National Police has approximately 90 percent of its authorized 82,000 end-strength. While the National Police may have more forces throughout Afghanistan, corruption, insufficient training and equipment, and absenteeism hamper their effectiveness.

CENTRAL GOVERNMENT AUTHORITY AND CAPACITY

Kabul in 2008 must work closely with the national legislature, as well as provincial and tribal leaders, to establish and extend the capacity of the central government. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level.

The drug trade is one of the greatest long-term challenges facing Afghanistan. The insidious effects of drug-related criminality continue to undercut the government's ability to assert its authority, to develop a strong, rule-of-law based system, and to rebuild the economy. Despite improved eradication and investigative efforts, poppy cultivation increased again last year. Opium poppy cultivation remains at or near 2004 record levels with over 200,000 hectares of land under cultivation in 2007.

Both law enforcement and judicial capacity—although somewhat improved—remain limited, and Kabul remains constrained in its ability to deploy programs at the provincial and local levels. For farmers, opium poppy cultivation remains significantly more lucrative than wheat and other crops. The United Nations estimated the total farm-gate value of opium production in 2007 at \$1 billion, with Helmand Province producing just over half of this total. The Taliban and other insurgent groups operating in poppy-growing regions gain at

**IRAQ
TANGIBLE GAINS IN
SECURITY**

least some of financial support as a result of their ties to local opium traffickers. Drug money is an important source of income, especially at the local level where some Taliban commanders accrue their own operational funding.

The security situation in Iraq continues to show signs of improvement. According to Multinational Force-Iraq, as of the end of 2007, security incidents countrywide and in the 10 Baghdad Security Districts have declined to their lowest levels since the February 2006 Samarra Golden Mosque bombing; civilian violence has declined to pre-Samarra levels; and monthly civilian fatalities nationwide have fallen by over half in the past year. We judge these security gains are the result of a combination of factors, including the success of tribal efforts in combating AQI, expanded Coalition operations, and the growing capabilities of the Iraqi Security Forces (ISF).

- We judge that organized tribal resistance to AQI—aided by expanded Coalition operations—has reduced AQI’s operational capabilities. Concurrently, decisions by major elements of the Sunni insurgency to work with the Coalition this year have weakened the insurgency by reducing the number of Sunnis involved in violent resistance.
- Many tribal members and former insurgents have joined “Concerned Local Citizen” groups (CLCs) or “tribal awakening” movements that are cooperating with the Coalition and Iraqi Government. Some groups have indicated a desire to move beyond providing security. They now want to promote economic development and become political movements. They also are endorsing the legitimacy of elections and political bargaining to effect change at the provincial and national levels of government.
- A steady decline in suicide attacks—the majority of which we judge are conducted by foreign terrorists—indicates that Coalition disruptions of AQI’s foreign terrorists have eroded AQI’s capability to mount suicide operations.
- The ISF effectively deployed forces to Baghdad in support of Operation Fardh al-Qanun this spring and, most recently, to Al Basrah and Ad Diwaniyah. While showing dramatic improvements, the ISF currently needs the Coalition for planning, supporting, and executing sustained operations.

**BUT SECURITY
CHALLENGES REMAIN**

Despite these gains, a number of internal factors continue to undermine Iraq's security. Sectarian distrust is still strong throughout Iraqi society, and AQI remains capable of conducting destabilizing operations and spectacular attacks despite disruptions of its networks. AQI remains a potent force and the most active and capable of the Sunni extremist groups fighting Coalition and Iraqi Government forces in Iraq. Also, since last August, intra-communal violence in southern Iraq has spread beyond rival militia factions as Shia groups compete for advantage.

Many Sunnis who participate in local security initiatives retain a hostile attitude toward Shia parties that dominate the government, and some Shia leaders still view many anti-AQI Sunni groups as thinly disguised insurgents who are plotting to reverse the political process that brought the Shia to power.

Security in southern Iraq probably will remain fragile in the coming months as rival Shia groups continue to compete violently for political power and economic resources. In Al Basrah, security remains tenuous. Security also is a problem in northern Iraq. Violence has increased in Mosul, Iraq's third largest city, as both Sunni resistance elements and AQI increasingly focus their activities in the area. The Iraqi government will have to address Sunni Arab concerns over representation on the provincial councils, defeat AQI and the insurgents, and address Kurdish expansionism to improve security in northern Iraq.

A number of factors continue to challenge the ISF's ability to conduct effective operations independent of Coalition forces. While improving significantly over the past year, ISF units remain hindered by shortages of personnel—especially trained leaders—and many units still rely on the Coalition for logistics support. Lastly, the return of Iraqi refugees and internally displaced persons (IDPs) to their former homes and neighborhoods as security improves could increase ethnosectarian tensions in mixed communities and create an additional strain on the Iraqi Government's ability to provide security and basic services to the general population.

**NEIGHBORS, FOREIGN
FIGHTERS FURTHER
CHALLENGE SECURITY**

Efforts by some of Iraq's neighbors to exert influence in Iraq also endanger Iraq's security. Iran—primarily through the Islamic Revolutionary Guard Corps-Qods Force—continues to provide weapons, funding, and training support to certain Iraqi

provide weapons, funding, and training support to certain Iraqi Shia militants despite reported commitments by senior Iranian officials to stop such support. Iran's provision of lethal aid to Iraqi Shia militants is designed to increase Tehran's influence over Iraq as well as ensure the United States suffers setbacks.

Approximately 90 percent of all suicide attacks in Iraq are conducted by foreign terrorists with 50 to 80 foreign terrorists entering Iraq each month, although that number appeared to decline in the last part of 2007. Seventy to eighty percent of the foreign terrorists gain final entry into Iraq through Syria, many through the Damascus international airport.

Syrian internal security operations have contributed to the reduction in the effectiveness of AQI's Syria-based foreign terrorist facilitation networks and in the number of foreign terrorists entering Iraq; nevertheless, Syria remains the primary transit hub for Iraq-bound terrorists.

**POLITICS AND
GOVERNANCE: CRITICAL
COMPONENTS TO IRAQ'S
SECURITY**

Improved security is a necessary but not sufficient condition to stabilize Iraq. Bridging differences among competing factions and communities and providing effective governance are critical for achieving a successful state, but moving ahead on that road has been tough for Iraq.

Prime Minister Maliki's government had only limited success in delivering government services and improving the quality of life for Iraqis. Despite the beginning of a return of Iraqis who had fled because of violence, the political gaps between Iraqi communities, particularly the Arab Sunni and Shia, remain deep.

Against this backdrop, Baghdad has managed to make some progress on key legislation. Legislation to reform de-Bathification laws, known as the "Accountability and Justice Law," has passed in the Iraqi Council of Representatives and awaits approval from the Presidency Council. When approved, this legislation would provide more Iraqis with an opportunity to play a role and have a stake in the central government. Negotiations on hydrocarbon laws continue to be stalled by disagreements between the central government and the Kurds over control of resources and revenue sharing. Progress also has been mixed on resolving outstanding Constitutional reform issues and preparing to hold provincial elections.

Gains on the economic front have improved the quality of life for Iraqis. Improved security has contributed to an increase in oil output from northern Iraq. The government also improved its performance last year in executing its budget, and the rate of inflation declined to 4.7 percent in December 2007 after hovering around 50 percent for most of 2006.

Legislation and improvements in governance and the economy are not in themselves ends; rather they are critical means for restoring Iraqi confidence in the central government and for easing sectarian distrust, which are the greatest requirements for enabling reconciliation.

TURKEY

The Marxist inspired KGK maintains approximately 3,000-3,500 guerrilla fighters in its northern Iraqi camps, about 1,000-2,000 fighters inside Turkey, and several hundred in Iran and Syria and wants to establish a greater Kurdistan. The group has maintained a high-level of violence in Turkey a few months each year since it ended its five-year old unilateral ceasefire in 2004.

Although the KGK has not previously targeted US interests, the risk of retaliatory attacks against US interests in Turkey and Iraq could grow.

IRAN

During the next year Supreme Leader Ali Khamenei and Iran's various conservative factions, despite some differences and infighting, are expected to maintain control over a politically stable if economically troubled Iranian state. However, recent public feuding between government factions over President Ahmadi-Nejad's handling of foreign and domestic policy issues—specifically the nuclear issue and the economy—probably is making it more difficult for Khamenei to avoid taking sides. The political discord probably has intensified as a result of international pressure, and as each side tries to position itself in advance of the Majles elections in March.

- Expediency Council Chairman Rafsanjani in November called on the government to take the latest sanctions seriously, according to press.
- Ahmadi-Nejad publicly has responded by calling his critics “traitors” and threatened to publicly reveal their identities.

- In December, Rafsanjani publicly attacked Ahmadi-Nejad, likening the President's economic policies to those of the Shah—an extremely unusual and pointed critique.
- Iran is on its soundest financial footing since the revolution with record high oil export revenue boosting foreign exchange reserves to more than \$70 billion. Despite the positive financial outlook, Iran's economy is plagued by the twin problems of high inflation and unemployment, which are Iranians' top complaints. Ahmadi-Nejad's populist policies have reduced unemployment marginally, but at the expense of rising inflation, which his political rivals might try to exploit in the upcoming Majles elections.

Iran remains a threat to regional stability and US interests in the Middle East because of its continued support for violent groups, such as HAMAS and Hizballah, and efforts to undercut pro-Western actors, for example in Lebanon. Tehran's leadership seeks to preserve Iran's Islamic revolutionary government, sovereignty, stability, and territorial integrity while expanding Iran's influence and leadership in the region and the Islamic world.

Iran also is enhancing its ability to project its military power—primarily with ballistic missiles and naval power—with the ultimate goal of dominating the Gulf region and deterring potential adversaries. It seeks a capacity to disrupt Gulf shipping, especially in the Strait of Hormuz, and thus the operations and reinforcement of US forces in the region—potentially intimidating regional allies into withholding support for US policy. Iran's growing inventory of ballistic and anti-ship cruise missiles is a key element in its efforts to assert its influence.

Iranian leadership perceptions of a favorable environment are driving its foreign policy to expand Tehran's influence and leadership in the region and the Islamic world and to undermine US influence, which it perceives as inimical to Iran's clerical regime. To achieve its regional aims and mitigate threats, Iran seeks to develop a sphere of influence based on diplomatic and economic relations, religious affinities, and shared anti-US sentiments. While Tehran seeks better relationships with Shia populations worldwide, it continues to be especially strident in denying Israel's right to exist.

Whether courting other governments or Muslim citizens, Iranian leaders seek political allies and economic partners as well as religious converts. Moreover, Tehran probably judges that local surrogates—usually Shia allies or proxies cultivated over many years—can promote Iran’s interests.

In Afghanistan, Iran likely will continue to focus on political activities, reaching out to alternative power centers, and challenging the US-led Coalition. Iranian officials probably will increase contact with various militias, political oppositionists, and religious leaders in Afghanistan and continue to provide lethal aid to groups and individuals who might be able to influence events in Iran’s favor should the Karzai government falter or turn against Iran. We assess Iran has provided weapons to some Taliban commanders. NATO forces last September interdicted a vehicle convoy from Iran that contained weapons, including advanced improvised explosive devices, destined for the Taliban.

- In the Levant, Iranian security concerns, particularly vis-à-vis Israel and the United States, and ambitions to become a dominant regional player, loyalty to allies, and concern for Lebanese Shia probably are driving Tehran’s relations with Syria, Hizballah, and other regional groups. Over the longer term, differences in Iranian and Syrian goals could limit their cooperation, but—barring significant changes in threat perceptions by either Syria or Iran—Tehran probably will continue providing military support to Syria.
- In Lebanon, Tehran seeks to build Iran’s and Hizballah’s influence to the detriment of other Lebanese communities and US and Israeli interests. To enhance its role as the leader of resistance to Israel, Iran will increase its support to Palestinian terrorist groups, including HAMAS.

PAKISTAN

Pakistan is a critical partner in US counterterrorism efforts, but continues to face an array of challenges complicating its effectiveness against al-Qa’ida and other radical Islamic elements operating in the country. These challenges include coping with an unparalleled level of suicide attacks ordered by Pakistan-based militants, many of whom are allied with al-Qa’ida. At least 865 security forces and civilians were killed by suicide bombings and IEDs in 2007. Four hundred ninety-six security forces and civilians also were killed in armed clashes in 2007 to make a total of 1360 killed in 2007. Total casualties in

2007 including the number of injured security forces and civilians exceeded the cumulative total for all years between 2001 and 2006.

Pakistan is establishing a new *modus vivendi* among the Army, President Musharraf, and elected civilian leaders now that Musharraf has stepped down as Army chief. Pakistani authorities are increasingly determined to strengthen their counterterrorism performance, even during a period of heightened political tension that we expect to continue over the next year.

Radical elements in Pakistan have the potential to undermine the country's cohesiveness. The terrorist assassination of former Prime Minister Benazir Bhutto could embolden Pashtun militants, increasing their confidence that they can strike the Pakistani establishment anywhere in the country.

The killing of Bhutto weakens the political party in Pakistan with the broadest national reach and most secular orientation, the Pakistan People's Party Parliamentarians (PPPP). However, sympathetic voters could give the party the largest number of Assembly seats in the upcoming national elections.

The Pakistani government's current plans will require intensified and sustained efforts to orchestrate the administrative, economic, educational, legal, and social reforms required to defeat Islamic extremism and militancy. Pakistan's law and order problems arising from tribal and religious militancy can be effectively addressed in the long term only if police and paramilitary forces can more reliably provide justice and border security. All of these administrative reforms require effective political leadership focused on improving the capabilities of Pakistani institutions for effective governance and development of economic opportunity.

SYRIA

The regime in Damascus continues to undermine Lebanon's sovereignty and security through its proxies; to harbor and support terrorists and terrorist organizations opposed to progress on peace talks; and to allow terrorists and criminals to cross its borders into Iraq and Lebanon. And as I noted previously, Syria's efforts to stop the flow of foreign fighters through Syria into Iraq has improved in recent months but is uneven over the past year.

Since the assassination of Rafiq Hariri in 2005, eight additional political leaders or officials have been killed in Lebanon in an effort to intimidate 14 March Coalition figures and alter the political balance in the Lebanese legislature. The Syrian regime, Hizballah, and pro-Syrian opposition elements in Lebanon have attempted to stymie international efforts to bring to justice those responsible for the Hariri assassination and disarm militia groups which constitute a challenge to Lebanese security and sovereignty. We anticipate that Syria and its supporters will continue to manipulate political developments in Lebanon through violence, intimidation, and refusal to work within constitutional parameters.

Syria continues its support of Hizballah as that group seeks to rearm against Israel and advance its political agenda in Lebanon at the expense of the legitimate government. Damascus continues to support Palestinian rejectionist groups, including HAMAS, the Palestine Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command. These organizations continue to base their external leadership in Syria, and despite repeated demands from the international community, Syria refuses to expel them or their leaders from their safe-haven in Damascus.

LEBANON

In Lebanon, international efforts, to ensure free, fair, and constitutional presidential elections, have been impeded by destabilizing actions of Syria, Iran, and their Lebanese proxies.

Lebanese Armed Forces (LAF) Commander Michel Sulayman has emerged as the prospective consensus candidate to become the country's next president; but Hizballah and the other pro-Syrian opposition parties insist on further concessions from the ruling Coalition before agreeing on the compromise. Even if the presidency is decided peacefully, issues such as the formation of the new government, naming of a prime minister, and the prospects for a UN tribunal investigating the assassination of former Prime Minister Hariri will be contentious.

- Since November 2006, a Minister, a deputy chief of the LAF, and several pro-government legislators have been killed in a campaign of intimidation—deepening fear among the Lebanese people that Syria, Iran, and their Lebanese cohorts will prevent Lebanon from asserting their political and economic independence.

- The pro-Syrian opposition has interfered with the government's implementation of UN Security Council resolutions. In violation of UNSC Resolution 1701, weapons and fighters continue to flow across Lebanon's borders to Hizballah and other terrorist organizations.

In southern Lebanon more than 13,000 UNIFIL peacekeepers and the Lebanese Armed Forces patrol Hizballah's stronghold. As recently as January, militants launched rockets into northern Israel from inside the UNIFIL zone and a roadside bomb killed six peacekeepers last June. Many former militias in Lebanon are reconstituting, rearming, and retraining their fighters. The increased political and sectarian tension also raises the potential for civil war within the country. Lastly, militant groups, some associated with al-Qa'ida, continue to threaten Lebanese internal security.

PALESTINIAN TERRITORIES

Despite progress toward initiating formal peace talks made in Annapolis last November, concern persists over the Palestinian Authority's ability to deliver the security demanded by Israel and to win popular support for its positions. President Abbas and other moderates remain vulnerable to actions by HAMAS and other groups aimed at subverting an agreement. The intra-Palestinian schism between Abbas and HAMAS has escalated since HAMAS' takeover of Gaza last summer.

HAMAS feels increased pressure over a weakening economic situation and an accelerating humanitarian crisis in the Gaza Strip; however, the group remains fairly unified, especially its military wing, and in charge in the Gaza Strip where it controls all PA facilities. HAMAS continues to curtail freedoms and to harass Fatah members.

In the West Bank, we see signs of progress by Fatah, including steps to reorganize the security sector, the return of PA customs revenues collected by Israel, renewed security and law enforcement cooperation with Israeli forces in taking more effective action against HAMAS, and progress by PA security forces in establishing security in Nablus and other areas.

SAUDI ARABIA

In Saudi Arabia, the long-term challenge from Islamic extremism has been checked for now, and the government benefits from steady, oil price-driven economic growth. Saudi security forces have achieved notable successes against al-Qa'ida networks inside the Kingdom since 2003, killing or capturing al-Qa'ida's original Saudi-based leadership and

degrading its manpower, access to weapons, and operational capability.

Although Riyadh also has made strides against key supporters and facilitators of extremist attacks in Iraq, Saudi Arabia remains a source of recruits and finances for Iraq and Levant-based militants and Saudi extremists constitute the largest share of foreign fighters and suicide bombers in Iraq.

RUSSIA AND EURASIA

Let me turn now to Russia and Eurasia. In March, Russia is set to reach what many anticipated would be an important milestone—the first on-schedule change in leadership since communism and the first voluntary transfer of power from one healthy Kremlin leader to another. That milestone has been clouded, however, by President Putin's declared readiness to serve as prime minister under his hand-picked successor, Dmitry Medvedev, a move that raises questions about who will be in charge of Russia after Putin's presidential term expires in May. Coming at a time of uncertainty about Russia's direction, the Medvedev-Putin "cohabitation" raise questions about the country's future and the implications for Western interests.

While many of the essential features of the current system are likely to endure, including weak institutions, corruption, and growing authoritarianism, we will be alert for signs of systemic changes such as an indication that presidential powers are being weakened in favor of a stronger prime minister.

ELEMENTS OF RUSSIA'S REVIVAL

We judge the Russian economy will continue to expand under a new leadership, although at a slower rate than over the last eight years, given capacity constraints, the slow pace of institutional change, the impact of real ruble appreciation, and developments in the international economy. Negative longer-term demographic challenges loom and investment will remain a significant constraint, particularly in the energy sector.

Other elements of Russian national power—from trade and energy, to diplomatic instruments and military and intelligence capabilities—are on a path to grow over the next four years. For example, Russia is positioning to control an energy supply and transportation network spanning from Europe to East Asia. Aggressive Russian efforts to control, restrict or block the transit of hydrocarbons from the Caspian to the West—and to ensure that East-West energy corridors remain subject to Russian control—underscore the potential power and influence of Russia's energy policy.

The Russian military has begun to reverse a long, deep deterioration in its capabilities that started before the collapse of the Soviet Union. Although determined that defense spending not harm Russia's economic performance, Putin has been committed to increases for defense commensurate with GDP growth that has averaged just under 7 percent this decade. By 2006 the military had significantly increased the number of high-readiness units from 1999 levels, ramped up ground forces training—including mobilization exercise activity—and begun to man its high-readiness units with longer-term "contract" personnel rather than conscripts.

Moscow also is making more use of its strengthened armed forces. A growing number of exercises with foreign militaries and an increased operational tempo in the North Caucasus Military District, often focusing on potential Georgian contingencies, are designed primarily to demonstrate regional dominance and discourage outside interference. Russia has used widely publicized missile launches and increased long-range aviation (LRA) training flights to the Pacific, Atlantic, and Arctic Oceans to showcase Russia's continued global reach and military relevance.

The military still faces significant challenges, and recent activity does not approach Soviet era operations. Demographic, health problems, and conscription deferments erode available manpower. Strategic nuclear forces remain viable, but Russia's defense industry suffers from overcapacity, loss of skilled and experienced personnel, lack of modern machine tools, rising material and labor costs, and dwindling component suppliers.

EURASIA AND BALKANS IN FLUX

The other states of Eurasia remain in a state of flux. Unresolved conflicts in the separatist **Georgian** regions of Abkhazia and South Ossetia will remain potential flashpoints even if Russia—in response to Western recognition of Kosovo—does not follow through with its implicit threat to recognize the two regions as independent. President Saakashvili's reelection in January will help renew his democratic credentials and leadership mandate.

Elsewhere in the Caucasus, the stalemated Nagorno-Karabakh conflict between **Azerbaijan** and **Armenia** continues to produce dozens of casualties annually along the Line-of-Contact. Moreover, Russia's recent suspension of its Conventional Forces in Europe obligations could lead to similar

suspensions by Azerbaijan and Armenia and a subsequent arms race.

Ukraine will continue to experience an unsettled domestic political situation for months to come. The struggle for power between various factions, however, has remained within the political system since the Orange Revolution, decreasing the possibility of violence.

Prospects for major political change in **Belarus** are dim over the next year. Lukashenko's populist rhetoric, image as the defender of Belarus, and ability to keep the economy stable have maintained his high popularity. Opposition efforts to promote a pro-Western democratic agenda and build support for his ouster have gained little traction.

Central Asian Trends. Central Asia remains fertile ground for radical Islamic sentiment and movements, due to socioeconomic and other factors. In **Uzbekistan**, President Karimov is intent on retaining firm control, but faces increased public dissatisfaction over a weakened economy and higher commodity prices. He has already demonstrated the willingness to use force against his people and could move quickly to suppress protests. **Kyrgyzstan** and **Tajikistan** lack the energy resources of other Central Asian states and have weak economies, but appear relatively stable for now. In the last year, **Turkmenistan** has shown progress on human rights and has begun to expand contacts with the outside world, but is still recovering from years of isolation.

We judge that **the Balkans** will remain unsettled in 2008 as Kosovo's drive for independence from Serbia comes to a head and inter-ethnic relations in Bosnia worsen. Kosovo leaders say they will declare independence early in 2008, a move that could trigger confrontation with rejectionist Serbs living in northern Kosovo and some retaliatory measures by Belgrade. A delay in independence could provoke a violent response from embittered Kosovo Albanian extremists.

Inter-ethnic violence that brings about intervention by NATO-led forces, is possible once Kosovo declares its independence, and any violence could spill over to neighboring states. However Kosovo's status is resolved, ethnic Albanian minorities in Macedonia and southern Serbia are likely to continue pressing for greater autonomy, and ethnic Albanian

extremists will attempt to exploit public discontent and use small-scale violence to rally support for unification with Kosovo. Serbian officials say they will not intervene with the Serbian Army in Kosovo, but they have warned of political and economic responses that would probably harden Kosovo Serb's rejectionism of independence and hinder Kosovo's economic development.

Fundamental differences between Bosniak and Bosnian Serb leaders over the ultimate structure of a multi-ethnic Bosnian state, fueled by increasingly strident ethnic rhetoric over the past year, have stymied most reforms required to keep Bosnia on a stabilizing path toward closer ties with the EU and NATO. However, the EU recently initialed a Stabilization and Association Agreement with Sarajevo. The international community presence in Bosnia is set to decline further in 2008. We judge the probability of interethnic violence is low absent a move by Bosnia's Serb entity, the Republika Srpska, toward secession. Any violence would put pressure on US and NATO forces in the region to assist.

CHINA

China sees itself as a regional power with global interests. Its strategic priorities focus on sustaining economic growth and political stability, partly as means to reinforce China's status as a great power and to uphold its territorial integrity. Beijing sees a peaceful external environment as vital to achieving these goals. As a result, China's global engagement is not driven by Communist ideology or military expansionism, but instead by a need for access to markets, resources, technology and expertise, and a desire to assert its role in the international community.

- All these goals have been reflected over the past few years in Beijing's expanded engagement with Africa and Latin America. China's efforts there have largely focused on gaining greater access to natural resources—especially oil—but China's involvement in these regions also helps promote its regional and global influence by burnishing China's image as a leader of the developing world. For example, Beijing has boosted its participation in African peacekeeping operations, most notably in Sudan.
- China's engagement in these regions, however, often overlooks the tendency of some developing world leaders to engage in human rights abuses or proliferation behavior—thus providing disincentives for those leaders to

alter such behaviors. In addition, Beijing still engages in some activities—including arms sales—that could contribute to instability in Africa or Latin America. China's arms sales in the Middle East are also destabilizing and a threat to US forces, while missile sales to Iran pose a threat to US forces in the Persian Gulf.

Public statements by Chinese leaders indicate that Beijing perceives itself as being in the midst of a 20-year “window of opportunity” favorable to China's growth, development, and rise in influence. As a result, Beijing is seeking a constructive relationship with the US and the rest of the world, which will allow China to fully capitalize on a favorable strategic environment. Indeed, Chinese officials consistently emphasize the need to seek cooperative relations with Washington, because conflict with the United States would risk derailing China's economic development. They also seek to alleviate international concerns about China's strategic intentions. As China's influence grows, however, Beijing probably will increasingly expect its interests to be respected by other countries. This will be especially true within East Asia, as Beijing tries to leverage its growing influence into a greater leadership role in the region.

The Taiwan presidential election scheduled for 22 March, coincides with an internal referendum on membership in the UN. Outgoing President Chen Shui-bian is seeking to affirm Taiwan's sovereignty and separate identity from the mainland. Beijing is attempting to use political and economic levers to deter what it sees as Taiwan's moves toward independence, but Chinese leaders say they are prepared for military contingencies, and have occasionally cited Beijing's 2005 “Anti-Secession Law,” which authorizes the use of force if Beijing's leaders deem it necessary.

**DOMESTIC STABILITY,
ECONOMIC CONCERNS**

Notwithstanding China's external goals, the leadership is focused on threats to domestic stability. President Hu Jintao's domestic policy agenda is an attempt to address some of the underlying causes of social discontent, which has erupted in local demonstrations, by focusing on more balanced economic opportunity, environmental protection, expanded social services, and rule of law while strengthening the Communist Party's hold on power. Chinese leaders rely on security forces to clamp down on non-governmental organizations, dissidents, and religious groups viewed as threats to the Party's power.

Implementation of Hu's program will require a major shift of resources to the countryside, greater accountability of provincial leaders to Beijing, and stronger efforts to root out corruption—all of which require overcoming substantial obstacles or taking significant political risks.

China's impressive economic growth—it is the world's second largest economy—masks significant distortions and risks, including a rigidly controlled currency that contributes to excess liquidity, wasteful investment; government policies that favor exports over domestic consumption; and a state-run banking system slowly recovering from a series of credit problems. China's demographic problem of an aging population, high incidence of chronic and infectious disease, environmental degradation, and an increasing energy crunch are likely to slow economic growth over the long term. A sudden and sharp slowdown in China could exacerbate vulnerabilities in the global economy; hardest hit would be its neighbors who sell about 50 percent of their goods to China and commodity producers who have enjoyed high prices and expanding export volumes because of China's rising demand for raw material, metals, and food.

PLA MODERNIZATION

The People's Liberation Army (PLA) continues to develop a wide range of systems that increasingly could put US and allied forces and bases in the region at risk. China's military modernization program is driven by the perception that a competent, modern military force is an essential element of the "great power" status to which Chinese leaders aspire. We judge that any Chinese regime, even a democratic one, would have similar goals.

China continues to develop and field conventional theater-range ballistic and cruise missile capabilities that will put US forces and regional bases throughout the Western Pacific and Asia at greater risk. China also is developing more capable long-range conventional strike systems and short- and medium-range ballistic missiles with terminally guided maneuverable warheads that could be used to attack US naval forces and airbases. China's arms sales in the Middle East are destabilizing and a threat to US forces, while missile sales to Iran also pose a threat to US forces in the Persian Gulf.

In addition, counter-command, control and sensor systems to include communications satellite jammers and ASAT weapons, are among Beijing's highest military priorities.

Beijing seeks to modernize China's strategic forces in order to address concerns about the survivability of those systems in the face of foreign advances in strategic reconnaissance, precision strike and missile defenses. China's nuclear capabilities in terms of range, lethality and survivability will increase rapidly over the next ten years.

THREATS TO SPACE SYSTEMS

Potential foreign adversaries are aware of the increasing US reliance on space systems and the advantages these systems provide to US military and intelligence operations. Over the last decade, the rest of the world has made significant progress in developing counterspace capabilities. I expand on this threat in my classified statement for the record.

LATIN AMERICA

The gradual consolidation of democracy remained the dominant trend over the last year in Latin America, but a small group of radical populist governments continues to project a competing vision that appeals to many of the region's poor. Indeed, the persistence of high levels of poverty and striking income inequalities will continue to create a potentially receptive audience for radical populism's message, especially in the less developed areas of Latin America.

Inspired and supported by Venezuela and Cuba, leaders in Bolivia, Nicaragua, and—more tentatively—in Ecuador are pursuing agendas that undercut checks and balances on presidential power, seek lengthy presidential terms, weaken media and civil liberties, and emphasize economic nationalism at the expense of market-based approaches. Moreover, each of these governments, to varying degrees, has engaged in sharply anti-US rhetoric, aligned with Venezuela and Cuba—and increasingly Iran—on international issues, and advocated measures that directly clash with US initiatives.

VENEZUELA

The referendum on constitutional reform last December was a stunning setback for Venezuelan President Chavez and may slow his movement toward authoritarian rule and implementation of his vision of 21st century socialism. However, Chavez will not abandon his goals for sweeping change toward socialism in Venezuela but may be compelled to spend more time bolstering his domestic support.

We judge Chavez miscalculated public opposition to such moves as seeking indefinite re-election and greater discretionary authority over expropriating private property. The proposed constitutional changes also generated schisms within the heretofore united pro-Chavez movement as Chavista governors and officials came to recognize their loss of power under the new system. The outcome of the referendum has given a major psychological boost to Chavez's opponents among the middle class, the private sector, the Catholic Church, and especially university students who have become an increasingly important political force. The challenge for the diverse opposition will be to remain united absent a coalescing event like the referendum.

While Chavez's policies are damaging the Venezuelan oil industry and its economy, over the next year or so, high oil prices are likely to enable Chavez to retain the support of his constituents through well-funded social programs; continue co-opting some members of the economic elite who are profiting from the consumer-led boom; and stave off the eventual consequences of his financial mismanagement. Adverse economic trends are increasingly evident, including food shortages, rising inflation, and an overvalued currency. Without question, policies being pursued by President Chavez have Venezuela on a path to ruin its economy.

Continued Regional Activism. Even with his likely increased attention to domestic affairs, Chavez will continue to seek to unite Latin America, under his leadership, behind an anti-US, radical leftist agenda and to look to **Cuba** as a key ideological ally. Chavez's leadership ambitions are likely to encounter growing opposition as time passes, however, because he has antagonized several of his regional counterparts and is increasingly portrayed by influential media as a divisive figure.

The sidelining of Fidel Castro in favor of his brother Raul may lead to a period of adjustment in Venezuela's relations with Cuba. Nevertheless, both governments depend heavily on this special bilateral relationship, and we assess they will find ways to smooth over any differences that may arise during the ongoing succession period in Cuba.

A high priority for Chavez will be to support the Morales government in **Bolivia**. The inauguration of **Nicaragua's** Daniel Ortega in January 2007 has given Chavez another staunch ally and a location from which to expand Venezuela's

activities in Central America. We expect Chavez to provide generous campaign funding to the Farabundo Marti National Liberation Front (FMLN) in El Salvador in its bid to secure the presidency in the 2009 election.

Venezuela and Iran. Chavez and Iran's President Ahmadi-Nejad have established a rapport, having visited each other seven times since 2005. Venezuela and Iran have made the most progress on the economic and energy fronts, negotiating agreements in such areas as agriculture, automobile and tractor manufacture, petrochemicals, and oil exploration in Venezuela's Orinoco region. Venezuela and Iran also have discussed cooperation on nuclear energy, but we are not aware of any significant developments as a result of these discussions. Military cooperation between Tehran and Caracas is growing. Nevertheless, the well over \$3 billion in arms Venezuela has purchased from Russia over the past two years far exceeds the military sales and maintenance contracts to which Venezuela and Iran have agreed. There are growing signs of anxiety among Venezuela's neighbors about this military build-up.

Venezuela as Drug Transit Point. Since 2005 Venezuela has been a major departure point for South American—predominantly Colombian—cocaine destined for the US market, and its importance as a transshipment center continues to grow. Chavez's lack of counterdrug cooperation undermines efforts by other countries, particularly Colombia, by giving traffickers access to alternative routes and transit points. Chavez is likely to remain unengaged on the counternarcotics front unless the drug trade is perceived to damage his international image or threaten his political longevity.

CUBA

Raul Castro has served as Cuba's Provisional President for over 18 months, but his political skills will be further tested over the next year as he deals with heightened public expectations for economic improvement in food availability, housing, transportation, salaries, and meaningful employment. His actions to date indicate that he is looking for ways to bring about economic changes through a modest, though not a sweeping transformation of Cuba's Communist economic model. Raul Castro has publicly called for contact with the United States on Havana's terms aimed ultimately at bringing about an end to the US embargo.

We judge Raul's most likely approach will be cautious,

incremental steps to make the agricultural sector more productive, to allow some private sector expansion through the creation of more small-scale enterprises, and to attract new foreign investment. If Raul moves forward, he probably will take pains to ensure elite consensus. Senior Cuban officials have made clear that there are no plans to permit competitive elections or otherwise alter the Communist Party's monopoly of power. Indeed, the determination of the Cuban leadership to ignore outside pressure to carry out significant economic and political reform continues to be reinforced by the more than \$1 billion net annual subsidy that Venezuela provides to sustain Cuba.

Policy missteps or the mishandling of a crisis by the leadership could lead to political instability in Cuba, raising the risk of mass migration. We assess the political situation is likely to remain stable at least in the initial months following Fidel Castro's death and do not expect to see overt signs of major cleavage in the ruling elite because many of the top Party and armed forces leaders were hand-picked by Raul Castro. Moreover, senior Party and government officials probably would not want to jeopardize their futures by forcefully challenging regime decisions. Pro-democracy dissidents continue to be harassed and to risk lengthy prison sentences for minor public criticism of the regime.

COLOMBIA

Under President Uribe, Colombia—the United States' staunchest ally in the region—has continued to make major progress in strengthening democracy by improving security while energetically implementing a comprehensive counternarcotics strategy.

Colombia's better-trained security forces and improving counterinsurgency capabilities have significantly weakened the Revolutionary Armed Forces of Colombia (FARC), confining the group's operations largely to ambushes and harassment attacks. This is a major difference from the late 1990s when the FARC regularly assaulted rural police garrisons and even battalion-sized Army units. Bogota now holds the strategic advantage because of the military's sustained combat operations in the FARC's rural heartland and the permanent stationing of security forces in regions previously dominated by the insurgents. Key successes last year included the killing of two prominent FARC Front commanders and the continuing high number of FARC deserters.

FARC leaders increasingly rely on political tactics to try to distract or restrain the government. The group's recent release of two Colombian hostages was a bid by the FARC to gain international recognition and pressure the government into offering it a demilitarized zone. The Uribe government continues to work with the United States to secure the freedom of three US hostages, who have been held captive for nearly five years. The FARC currently holds about 750 hostages.

The second major prong of Uribe's security strategy—demobilizing and reintegrating paramilitaries into civilian society—also has yielded important benefits. Government successes against all the illegal armed groups have caused murder and kidnapping rates to drop significantly, and the improved security environment has helped fuel an economic boom. Stepped-up efforts to prosecute human rights violators, including in the security services, have contributed to a gradually improving human rights picture. Bogota is taking steps to follow through with proposals to strengthen the judiciary and prosecute the murders of union members and human rights workers.

Bogota's counterdrug program continues to show impressive results, particularly in interdiction, arrests of major drug traffickers, and extradition. The police and military seized 65 metric tons of cocaine and cocaine base in 2006; it also destroyed 200 cocaine labs. The government has approved more than 550 extraditions to the United States since 2002, including more than 100 cases in 2007. And Colombian authorities captured kingpin Diego Montoya in September, the country's most important drug trafficker on the FBI's Top Ten list. Although aggressive US-supported aerial eradication has diminished coca cultivation in some areas, coca farmers have adapted by moving beyond the reach of the spray program or taking actions to save or replace sprayed fields. In response, the Uribe administration is combining spray efforts with increased emphasis on manual eradication.

MEXICO

The overall picture in Mexico is positive. President Felipe Calderon's strong start in his first year in office featured an aggressive counternarcotics offensive, forging a working relationship with elements of the opposition, securing a limited revamping of the government pension system, and pushing through Congress a high-priority fiscal reform package. The public has supported most of Calderon's policies, and

sustaining this momentum will be an important task as the midterm election season approaches in 2009.

Illegal migration, drug smuggling and associated violence, and human trafficking continue to threaten to Mexico's internal security and the security of the US southern border. Calderon's aggressive offensive against drug-trafficker-inspired violence has led him to deploy 20,000 to 30,000 federal police and soldiers to 10 Mexican states. A mid-year truce between major Mexican drug cartels aimed at diminishing inter-cartel violence appeared to reduce drug-related murders in certain areas last summer; but drug violence remains high and indeed, criminal violence has increased in frequency, brutality, and geographic scope. The government also faces a rejuvenated threat from a small group of domestic insurgents: bombings of Mexican oil and natural gas pipelines marked a return to violence by the radical leftist Popular Revolutionary Army (EPR). In response, Calderon has stepped up security of oil and gas pipelines.

To deter criminal activity, Calderon has deployed military troops to bolster security in states plagued with drug violence and extradited high-level traffickers to the United States. He is seeking to reform Mexico's police and judicial system, and has subjected top federal police commanders to drug tests, polygraphs, and a review of personal assets. While making progress, sustained success will require long-term commitment.

AFRICA

Persistent insecurity in Nigeria's oil producing region, the Niger Delta, poses a direct threat to US strategic interests in sub-Saharan Africa. Ongoing instability and conflict in other parts of Africa pose less direct though still significant threats to US interests because of their high humanitarian and peacekeeping costs, drag on democratic and economic development, and potential to get worse.

THREATS TO US INTERESTS IN NIGERIA

President Yar'Adua has pledged to resolve the crisis in the Niger Delta but faces many obstacles created by decades of neglect, endemic corruption, mismanagement, environmental degradation, and deep public mistrust of government. The armed elements behind the violence, sabotage, kidnappings, and oil theft appear to be splintered into numerous groups with different agendas that are mostly criminal in focus. Government officials, politicians, and military personnel have a history of colluding with these groups. Nigeria's corruption-prone military has reined in some gang violence under the new

administration but lacks the capacity and resources to police sprawling infrastructure in its swampy terrain. The military could provoke even more unrest if it went on the offensive against the armed groups.

Nigeria's overall political stability remains fragile even though tensions surrounding elections in 2007 have diminished. The crisis in Sudan's **Darfur** region shows few signs of resolution, even if the planned UN peacekeeping force of 26,000 is fully deployed. The rebels are fractured; some of them are prolonging the conflict for material gain and others regard the Darfur Peace Agreement as serving Khartoum's interests. Khartoum also has failed to honor ceasefire agreements. Some 2.2 million Darfurians remain displaced. Sudan's North-South peace agreement also is in danger of collapse because of mounting Southern frustration with the North's failure to honor core provisions on power and revenue sharing; military redeployments, and border demarcation. The agreement is further undermined by allegations of Southern corruption, lack of expertise, and failure to participate in key implementation bodies.

Violence in **Kenya** after a close election marred by irregularities represents a major setback in a country that had long been among Africa's most prosperous, peaceful and stable countries, and one which gradually had progressed from dictatorship to democracy. The situation remains in flux, but President Kibaki and opposition leader Raila Odinga as yet show few signs of meaningful compromise. The political dispute has played itself out in ethnic violence that has so far killed 500-1,000 and displaced as many as 250,000 people. It has damaged, perhaps for the long-term, public trust in political institutions and the democratization process. Kibaki probably will do everything he can to hold on to power. Kenya is likely to enter a period of increased social tension and instability, which could affect its willingness and ability to cooperate with the US on regional diplomatic and counterterrorist matters.

Ethiopia's intervention in **Somalia** in December 2006 quickly toppled the Council of Islamic Courts, a coalition of business, clan and religious interests increasingly under the influence of extremists with close ties to the Al-Qa'ida East Africa terrorist network. Ethiopia's intervention provoked an insurgency and sharpened divisions among Somalis, making governance close to impossible. The Ethiopian-backed

Transitional Federal Government is incapable of administering Somalia and probably would flee Mogadishu or collapse if the Ethiopians withdrew. Ethiopia's counterinsurgency operations in its own ethnic Somali region, the Ogaden, are blocking access for relief workers and creating a humanitarian crisis that risks hundreds of thousands.

Though the situation in the **Democratic Republic of Congo** has vastly improved since the early 2000s, fighting in 2007 displaced more than 400,000 civilians and could draw in neighboring countries if it resumes. The crisis underscores the fragility of Congo's post-war transition and the difficulty President Kabila will continue to have in consolidating control over the country.

Fledgling insurgencies among nomads in **Mali** and **Niger** are likely to remain confined to the remote and sparsely populated Sahara desert but nonetheless are a strain on the security forces of these two impoverished democracies. The insurgency in Niger also threatens uranium mining, which is controlled by a French company.

Tensions between longtime enemies **Ethiopia** and **Eritrea** have increased over the past year, with both sides seemingly preparing for a new war. The last war killed about 80,000 soldiers on both sides. If conflict reignites, Ethiopian President Meles's own hold on power could be put in jeopardy if the war went badly for him.

Serious threats to **Zimbabwean** President Mugabe have yet to materialize despite hyperinflation, economic decline, and political uncertainty. Ruling party insiders are divided and appear unlikely to mount a credible challenge to Mugabe in the near term. Opposition party leaders, who have been deeply divided in the past, announced in late January that they would unify behind a single candidate, but the opposition still appears unlikely to mount a serious challenge to Mugabe's authority. Zimbabwe is likely to face a political standoff if Mugabe suddenly departs the scene without ruling party consensus on his successor.

GLOBAL ENERGY
SECURITY

Access to stable and affordably priced energy supplies has long been a critical element of national security. Sustained increases in global demand and the interactive effects of energy with other issues have both magnified and broadened the

significance of developments in the global energy system. Oil prices in late 2007 were near record levels and global spare production capacity is below the market's preferred cushion of 3 to 4 million barrels per day (b/d).

FACTORS FUELING HIGH PRICES

Geopolitical uncertainties and tensions heighten the risk of a major oil supply disruption and the attendant negative repercussions for the global economy. Threats to Iraqi and Nigerian oil output remain a concern despite some positive developments last year. Terrorist attacks against Persian Gulf oil facilities and the potential fallout from mounting tension with Iran over its nuclear program are significant additional risks.

In Iraq, completion of a new pipeline and security improvements have helped Baghdad boost production and exports in recent months by several hundred thousand barrels per day, but output remains vulnerable to episodic violence.

Ethnic and political violence and criminal activity threaten a large portion of Nigeria's 2.2 million b/d of oil output. Approximately 550,000 barrels per day (b/d) in potential oil production, about a fifth of Nigeria's production capacity, have been offline since February 2006 because of militant attacks, and probably another 100,000 b/d are stolen. Over the past two years, the amount shut in has been as much as 900,000 b/d. Even greater and more prolonged disruptions could occur again with no advance warning, and this fear is contributing to upward pressure on oil prices in international markets. US companies have billions of dollars in investments in Nigeria. Abuja has begun to take these problems more seriously and directed national security assets to the area. However, local militias, who target oil facilities and kidnap foreign oil company personnel, will remain a persistent threat until political and other grievances are addressed.

Public statements by al-Qa'ida leaders indicate that terrorists are interested in striking Persian Gulf oil facilities.

Iran could withhold some or all of its 2.4-million barrels per day oil exports or even try to impede the flow of 18 million barrels per day of oil through the Strait of Hormuz if its pursuit of the nuclear fuel cycle sparks a major crisis; however, we assess Tehran is likely to take these provocative steps only if it perceived it had little to lose. Venezuela's President Chavez

has pledged solidarity with Iran and might also curtail some or all of his country's exports of about 2 million b/d in such a scenario.

WINDFALL FOR PRODUCERS

High energy prices and escalating demand for oil and natural gas, also has resulted in windfall profits for producers. OPEC countries earned an estimated \$690 billion from oil exports last year, nearly three times the revenues earned in 2003. The increased revenues also have enabled producers like Iran, Venezuela, Sudan, and Russia to garner enhanced political, economic and even military advantages and complicated multilateral efforts to address problems such as the tragedy in Darfur and Iran's nuclear program.

With about 70 percent of global oil reserves inaccessible or of limited accessibility to outside oil companies, competition between international oil companies to secure stakes in the few countries open to foreign investment is likely to intensify. Determined to secure the energy inputs necessary to fuel continued robust economic growth, Chinese and Indian state-owned and private energy companies are pursuing strategic investments in energy assets worldwide. We also see a sharp rise in Russia's investment abroad, much of it driven by Russian energy companies. Moscow is using the power of its energy monopoly to ensure that East-West energy corridors remain subject to Russian influence.

RISING GLOBAL FOOD PRICES

Global food prices also have been rising steadily over the past two years driven by higher energy prices—which push up input costs—weak harvests, historically low stocks, and robust demand. Wheat prices were up over 60 percent in 2007, and are at a 20-year high. Other foodstuffs such as vegetable oils also are near records. There is little near term relief in sight because production increases in several countries, including Australia, are hampered by water shortages and land constraints. High food prices in several countries, including Russia, China, India, and Vietnam, are forcing governments to engage in market distorting practices such as banning food exports, increasing subsidies, or fixing prices: Food prices are likely to be an issue in several upcoming elections, particularly Pakistan.

The double impact of high energy and food prices is increasing the risk of social and political instability in vulnerable countries. Corn protests in Mexico, bread riots in Morocco, and recent unrest in Burma are directly linked to

higher food and energy prices. Higher food prices, as well as rising transportation and logistical costs, also have outstripped global aid budgets and adversely impacted the ability of donor countries and organizations to provide food aid. For example, the World Food Program's food costs have increased by more than 50 percent over the past five years and are projected to grow another 35 percent by the end of the decade.

INFECTIOUS DISEASE AND US SECURITY

The international spread of infectious diseases and the increasing emergence of new ones remain challenges to US security. Even with the UN's recent downgrading of the size of the HIV/AIDS epidemic, that disease, malaria, and tuberculosis together kill 6 million persons annually. The spread of infectious disease is exacerbated by poverty, an insufficient global health infrastructure, increasing globalization, urbanization (especially in the developing world), migration, complex humanitarian emergencies with resultant refugee flows, and environmental degradation. Additionally, misuse of antibiotics has led to an increase in resistant bacteria strains.

The most direct threat to the US is the spread of infectious pathogens to our shores, or within areas where US personnel are deployed. Disease also indirectly threatens us with its potential impacts upon the international economy, civil society and critical infrastructures. Even a relatively limited outbreak, as happened with SARS in 2003, can have widespread ripple effects. Even if an outbreak does not threaten the US directly, the resulting instability or humanitarian emergency can place additional demands on US military and financial resources.

The most pressing infectious disease challenge for the United States is still the potential emergence of a severe influenza pandemic. Although the avian H5N1 virus has remained primarily a threat to poultry, it continues to expand its geographic coverage, and to evolve—indeed it retains the potential to evolve into a human pandemic strain.

A virulent virus from such an emerging pandemic also has the potential to be used as a weapon by a terrorist group or a technically experienced lone actor; such an attack would likely be devastating, both economically and socially. While we do not currently see this level of technical sophistication in terrorist groups—isolating a virulent strain is difficult—the possibility cannot be ruled out; therefore, we will continue to use our intelligence resources to try to help detect any such preparations

to use a virus as a terrorist weapon.

CONCLUSION

The issues that we consider here today confront responsible citizens and their governments everywhere. I, my colleagues, and the Intelligence Community we represent are fully committed to arming our policymakers, warfighters, and law enforcement officers with the best intelligence and analytic insight we can. 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.