



**Statement Before the
Senate Foreign Relations Committee**

***“Defeating the Iranian Threat Network:
Options for Countering Iranian Proxies”***

A Testimony by:

Melissa G. Dalton

Senior Fellow and Chief of Staff,
International Security Program,
Center for Strategic and International Studies

November 29, 2016

419 Dirksen Senate Office Building

Chairman Corker, Ranking Member Cardin, and distinguished Members of the Committee: it is an honor to testify before you today with my excellent colleague Matthew McInnis on options for countering Iranian proxies.

This testimony draws from research and analysis informing a forthcoming report, “Deterring Iran After the Nuclear Deal,” which will be published by the Center for Strategic and International Studies in February 2017.

Iran’s Strategic Approach

Iran is a revisionist power that seeks to fulfill a number of goals to change the status quo. These objectives include: ensuring the domestic survival and primacy of the Islamic Republic; enhancing its regional power and influence in the Middle East; securing a place of political and economic importance within the international community; and preserving its ability to deter adversaries from posing an existential threat to Iran.

Iran is aware of its conventional military inferiority versus its adversaries, particularly the United States and Israel, and also to a lesser extent the Gulf Cooperation Council (GCC) states. Thus, Iran employs a hybrid strategic approach towards achieving its interests, leveraging a range of unconventional and conventional capabilities and concepts of operation, including proxy forces. It ensures that any escalations against the United States and its regional partners fall short of large-scale warfare. This approach encompasses a range of coercive activities, from developing missiles and engaging in provocative maritime activities, to supporting proxies and terrorist groups, and exploiting cyber vulnerabilities while employing psychological and information operations.

Operating in the “gray zone” between war and peace, Iran exercises threshold avoidance by incrementally antagonizing the United States and its regional partners in the maritime sphere and through the gradual progression of its missile development program. The use of non-military coercive tools — cyber, psychological, and information operations — also allows Iran operating space to target its adversaries without provoking significant retaliation. Additionally, Iran’s exploitation of ambiguity, particularly through its use of proxy groups in the Middle East, enables the country to indirectly attack its adversaries and counter Sunni influence in the region. These activities, employed in the pursuit of Iran’s interests, accrue gains as well as costs to Tehran, all the while exacerbating tensions with its adversaries.

The GCC countries have largely resisted Iranian penetration of their Shi’a populations through intelligence and security measures, but they remain highly concerned about the potential for Iran to deepen its influence in their territory. Iran’s use of proxies is of particular concern to GCC countries in this regard. The Islamic Revolutionary Guard Corps (IRGC) oversees and directs

proxy activities as an extension of Iran's power and influence. It has been particularly successful in Lebanon, Syria, and Iraq, cultivating and sponsoring groups such as Lebanese Hezbollah, the Badr Corps, Kata'ib Hezbollah, and Asa'ib ahl al-Haq. Not all of Iran's proxies are created equal or are even true proxies. Some groups possess more sophisticated paramilitary and intelligence capabilities and receive more training, funding, and equipment from Iran than others; these groups also tend to be more ideologically and politically connected to Iran and its agenda, such as Lebanese Hezbollah. Others, such as the followers of Iraqi Shi'a cleric Moqtada al-Sadr, have links to but receive less support from Iran.

Advantages of Iran's Strategic Approach

By operating below the threshold of large-scale warfare, Iran is able to act boldly and make significant gains towards its goals without provoking a conventional war against the United States or its regional partners. Supporting sub-state proxy groups such as Hezbollah in the Levant and the Houthis in Yemen in a variety of ways allows Iran to pursue its goals of increased influence in the Middle East, while avoiding kinetic consequences. Iran enjoys a significant measure of plausible deniability with this particular pillar in its strategic approach. As it is not directly implicated in any acts carried out by these proxy groups, Tehran benefits from its ability to subvert its regional rivals, and deter them from taking anti-Iranian actions that could trigger a potential backlash from the proxy groups.¹ While the United States and its allies and partners must operate within international norms, Iran is able to leverage its capabilities and asymmetric activities without playing by international rules. Additionally, Iran's use of proxies constrains its adversaries' options, as the United States, Israel, and the GCC countries must calculate their responses to Iranian actions based on the potential for conflict escalation and the risks of causing civilian casualties, disrupting economic activity, and disabling critical infrastructure. For example, Lebanese Hezbollah's penetration of southern Lebanon serves as a deterrent against Israel, as it has embedded effectively in Lebanese localities and civilian structures.

Besides deterring adversaries' actions, Iran also leverages its proxy relationships to incrementally infiltrate and influence state institutions in countries with weak governance, such as Lebanon and Iraq, while promoting Iranian ideology among local recruits. Through its proxies, Iran provides services that would normally be dispensed by the state, taking advantage of local grievances, particularly among Shi'a populations. Over time, these groups gain popular support and legitimacy, providing a hedge against the state government, or, as seen in Lebanon, forming part of a governing coalition.

Moreover, the wars in Syria and Iraq have provided fertile ground for the growth of Iranian proxies and supported groups. Iran likely has made investments in these groups in part out of true concern for the instability and fragmentation of both countries, which does not serve its

¹ J. Matthew McInnis, *Iran's Strategic Thinking: Origins and Evolutions*, American Enterprise Institute, May 2015, P. 20.

interests. Iran wants a pliable government but a functioning state in both Syria and Iraq. Yet, in this chaos, Iran may see opportunities for tactical advantages versus the United States and the GCC countries by shaping and supporting local actors and proxies. Iran has mobilized up to 115,000 fighters in Syria to bolster President Bashar al-Assad's regime, comprised of Lebanese Hezbollah, Syrian, Iraqi, Afghan, and Pakistani recruits, and overseen by IRGC-Qods Force personnel. It is unclear whether some contingent of this expeditionary force will remain in Syria over the long-term to preserve Assad's hold on the strategic territory necessary for Iran to sustain its supply and command and control lines to Lebanese Hezbollah.

Disadvantages of Iran's Strategic Approach

Iranian activities in the pursuit of its strategic goals have, in some instances, backfired and imposed unintended costs on the regime. By testing the limits of the Joint Comprehensive Plan of Action (JCPOA) through its missile tests, continuing its naval provocations in the Gulf and the Strait of Hormuz, and its support for terrorist groups in the region, Iran's image as an international pariah remains in many ways the same. This is best exemplified by the unwillingness of international banks and businesses to invest in Iran despite the lifting of significant international sanctions against the country under the JCPOA.² Unilateral U.S. sanctions on Iran for its ballistic missile program remain intact, as do sanctions for Iranian human rights violations and its support for proxy terrorist groups.³

Iran is also disadvantaged by a principal-agent problem versus its proxies, which do not always act in accordance with Iranian interests. This dynamic is currently most visible in Iraq among some armed Shi'a groups that receive Iranian support and can secure territory but can also survive without an Iraqi government. This poses a challenge for Iran, as it does not desire the complete fragmentation of Iraqi state governance; it wants an Iraqi government in control that can be pliable to Iranian interests, while continuing to support Iraqi Shi'a militias that can keep the Iraqi government in check.

Additionally, Iran's strategic approach results in continued economic pressure on the country, limiting its ability to invest in its military and paramilitary capabilities. A weaker economy, further eroded by the persistence of low oil prices, undermines Iran's ability to modernize and improve its military at the rate that it ideally would like to; despite Russian and Chinese military assistance, sanctions continue to limit Iran on the conventional front.⁴ From 2006 to 2016, Iranian military expenditure decreased by approximately \$4.01 billion, and that number is

² Laurence Norman, "U.S., EU Urge European Banks, Businesses to Invest in Iran," *The Wall Street Journal*, May 19, 2016, <http://www.wsj.com/articles/u-s-eu-urge-european-banks-businesses-to-invest-in-iran-1463699065>.

³ Carol Morello and Karen DeYoung, "International sanctions against Iran lifted," *The Washington Post*, January 16, 2016, https://www.washingtonpost.com/world/national-security/world-leaders-gathered-in-anticipation-of-iran-sanctions-being-lifted/2016/01/16/72b8295e-babf-11e5-99f3-184bc379b12d_story.html

⁴ Anthony H. Cordesman, "The Conventional Military," *The Iran Primer*, United States Institute of Peace, August 2015, <http://iranprimer.usip.org/resource/conventional-military>.

unlikely to change significantly in the near term given continued unilateral sanctions and international hesitance to invest in Iran.⁵ Limited cash flow also inhibits Iranian ability to fund proxies in the Middle East. Acting Treasury Undersecretary for Terrorism and Financial Intelligence Adam Szubin asserted in a May 2016 Congressional testimony that as a result of U.S. sanctions on Iran for its support of Hezbollah, “the group is in its worst financial shape in decades.”⁶ Although the IRGC largely is isolated from international pressure, it operates at the will of Iran’s Supreme Leader, who does react to domestic demands. Constraints on Iran’s economy and resulting pressures on the Iranian people can affect the Supreme Leader’s calculus.

The GCC states’ backlash to Iran’s coercive activities also hampers the latter’s security interests. Reacting to Iranian proxy subversion and empowerment of Shi’a groups in the region, the GCC has empowered anti-Iranian Sunni proxies of its own, particularly in Syria, thus escalating the civil war. Reports of Saudi and Qatari funding that assists Jabhat Fateh al-Sham (formerly Jabhat al-Nusra) and other Salafist groups in Syria directly counter Iranian efforts to increase its influence in the region, and pose a security threat to Iranian interests.⁷ The GCC is also bolstering its conventional capabilities, with Saudi Arabia looking to become the fifth largest buyer of arms in the next five years, with a budget upwards of \$60 billion.⁸ Despite its best efforts, Iran will be unable to keep up with that level of military spending.

Iranian behavior can have unintended consequences, backfiring on efforts to improve its standing within the international community and negatively impacting its economy and its security calculus. The regional reactions to Iranian coercive behavior has created unlikely avenues for dialogue and possible cooperation among traditional adversaries, notably between Israel and Saudi Arabia and Israel and the UAE. These countries share deep concerns about Iranian destabilizing activities and have discussed political and economic ways to curb them. On balance, Iran’s strategic approach provides short-term deterrence benefits, but is to the detriment of the country’s longer term objectives.

Assessment of the Current U.S. Approach

The U.S. approach to Iran has deterred significant leaps forward in Iranian activities and capability development. Sustained U.S. leadership in mobilizing an international push for a dual-track policy of diplomacy and economic sanctions resulted in the achievement of the JCPOA.

⁵“Data for all countries from 1988-2015 in constant USD,” SIPRI Military Expenditure Database, <https://www.sipri.org/sites/default/files/Milex-constant-USD.pdf>.

⁶ Ron Kampeas, “Hezbollah in ‘worst financial shape in decades,’ says top sanctions official,” *The Jerusalem Post*, May 27, 2016, <http://www.jpost.com/Arab-Israeli-Conflict/Hezbollah-is-broke-thanks-to-US-sanctions-says-White-House-official-455199>.

⁷ Kimberly Kagan, “The Smart and Right Thing in Syria,” *Strategika, Issue 01*, Hoover Institution, April 1, 2013, <http://www.hoover.org/research/smart-and-right-thing-syria>.

⁸ Alia Chughtai, “GCC military spending spree,” *Al Jazeera*, June 4, 2016, <http://www.aljazeera.com/indepth/interactive/2015/08/gcc-military-spending-sprees-150808120255563.html>.

Despite some ambiguities in JCPOA implementation,⁹ this approach has cut off all of Iran's overt routes to a nuclear weapon, put in place vigorous and intrusive transparency measures to verify Iran's compliance, and ensured sanctions can be snapped back into place if Iran violates the deal. The United States and its regional partners have also made sound investments and enhanced training and exercises to improve the regional military balance, particularly in their counterterrorism, intelligence, missile defense, air strike, and maritime operations. Yet, enduring military relationships and sustained investments have failed to instill the needed confidence among partners to assure them that the United States is committed to pressing back against Iranian destabilizing behavior and capability development. Israel and the GCC countries in particular do not believe that the United States has taken the Iran challenge seriously enough. They have also expressed concerns about whether U.S. leadership and commitment in the region will endure, following U.S. troop drawdowns in Afghanistan and Iraq, the announcement of the Asia-Pacific Rebalance, and the narrow U.S. approach to addressing the Syrian civil war.

The United States has largely been unable or unwilling to deter Iran's incremental extension of regional power and threshold testing across a range of military and paramilitary activities. Despite some key successes against and pressure on the Iranian threat network, including enhanced financial pressures applied earlier this year, the United States has most notably failed to effectively curb the deepening reach of Iran's network of proxy actors and activities in Syria, Iraq, and Yemen. Indeed, in the last five years, the network has grown.

Beyond these proxy activities, regional cyber infrastructure is vulnerable to Iranian penetration, challenging economic, energy, and operational activities of key U.S. partners in the region. U.S. military presence in the Gulf deters large-scale Iranian incursions at sea but has failed to stem IRGC-Navy provocations. Regional missile defense capabilities have grown in the last five to ten years but remain vulnerable to accelerating Iranian missile capabilities. Finally, Iran's ability to wage "soft" or political warfare through information operations, projecting its regional activities and capability development to magnify and glorify its power and influence, remains largely unchecked by the United States and its allies and partners.

Towards a Deterrence Approach

The next Congress and the new U.S. Administration have an opportunity to chart a pathway forward vis-à-vis Iran that protects U.S. interests, strengthens deterrence, and sets the conditions for changing Iran's behavior. The United States should evaluate a range of policy choices to determine the most important security objectives in its Iran strategy and prioritize them

⁹ A number of ambiguities have troubled JCPOA implementation, including what happens to Iranian nuclear development as the JCPOA enters its latter years and whether a cap should be placed on Iranian missile development. In addition, it is unclear whether certain commercial transactions may take place and foreign banks can conduct dollar-denominated transactions with Iranian entities with tangential contact with the U.S. financial system, restoring the "U-turn" transactions by which dollar transactions between Iran and foreign banks can be cleared by the New York Federal Reserve bank.

accordingly. Inevitably, there will be tensions among these objectives that the United States will need to assess and address.

The United States may choose to elevate its counterterrorism objectives in its approach to Iran, given the unique challenges that Iran's expansive threat network poses to U.S., allied, and partner interests. Despite short-term U.S.-Iranian alignment of interests versus ISIS, Iran's support for terrorist proxy groups and growing IRGC activities and influence run counter to U.S. interests and objectives. Left unchecked, these conditions set a dangerous dynamic whereby Iran's deterrent value to direct action by the United States and regional partners is enhanced, but Sunni powers perceive that they must also support their own proxies to counter Iran's activities. IRGC-supported groups in Iraq and Syria will be in a strong position to threaten and/or deter states and actors that would seek to contain and press back against Iranian influence, once ISIS is degraded and attention turns toward stabilization efforts in Iraq and Syria. After Mosul is cleared, it is possible that some Shi'a militias could revert to "first principles" of resisting U.S. influence and presence, possibly even through kinetic means, against remaining U.S. personnel in Iraq. Although Iran has less incentive and influence to create true proxy forces in Yemen and Bahrain, it will continue to seek to keep GCC countries off-balance with its support to groups (e.g., arms flows and propaganda) in those countries.

To curb this trend, the United States should uphold its end of the JCPOA with Iran while simultaneously enhancing efforts to reduce or counter Iranian support of terrorist proxy groups, particularly as it threatens allies and partners' interests in the region. The United States should ratchet up direct and indirect targeted and calibrated operations to disrupt IRGC activity, interdict support for proxies, and undermine Iran's regional cyber activities. Through amplified information operations, the United States should publicly expose groups that receive Iranian support, and exploit national sentiment in the region that bristles at Iranian interference through information operations. The United States should build the capabilities of and regularly train and advise regional partner security forces, employing scenario-based exercises focused on Iran and its proxy groups. It also should patch known cyber vulnerabilities in the region's critical infrastructure to complicate Iranian efforts to compromise the confidentiality, integrity, and availability of critical systems and structures, through cooperative efforts with regional partners.

This strategy will have its limits. Absent ideological changes in the Iranian government, the United States will not be able to change Iran's reasoning for supporting proxy groups in general or its use of proxy groups to deter U.S. and regional actions specifically. A counterterrorism-heavy approach may prompt Iran to reassess its commitment to the JCPOA, due to backlash among Iranian hardliners toward policies of President Hassan Rouhani and Foreign Minister Mohammad Javad Zarif, especially if the United States imposes new terrorism-related sanctions that mimic prior nuclear ones. U.S. or allied action against Iranian proxies could be seen as a serious act of aggression if not calibrated to maximize effect while mitigating blowback. Iran is likely to respond with kinetic attacks, information operations, and cyberattacks on U.S., allied,

and partner personnel and economic interests in the region via its proxies. In such cases, the United States should employ asymmetric responses and application of pressure.

To manage these limitations, the United States should calibrate its actions to prompt behavior changing results and send a message that certain groups, interests, and assets are off limits. The United States government will have to determine internally what its redlines are with respect to Iranian proxy activity, perhaps by tiering threats to U.S., allied and partner interests, and broadly destabilizing activities, and to take concrete action when the threshold is tested. It must determine when to make its counterterrorism actions known and when the action and message should be telegraphed privately (or to let it speak for itself).

Recommendations

Absent changes in Iran's strategic calculus and orientation, it will likely continue to rely on its network of proxies to shape the region, increase its influence, and constrain actions by the United States and its regional partners. However, there are steps that the United States, working in coordination with allies and partners, can take to limit the reach of Iranian proxy activities and stem further growth of proxies in the region. These measures include:

- Ratchet up direct and indirect targeted and calibrated operations to disrupt IRGC activity and interdict support for proxies, based on an intelligence and operational assessment of U.S. and Iranian red lines for action;
- Conduct cyber disruption of proxy activities;
- Avoid inflating Iranian capabilities and intentions, but at the same time, be prepared to respond strongly to Iranian provocations across the spectrum of its coercive activities;
- Expose Iranian-backed groups, front companies, and financial activities outside its borders to delegitimize and discourage Iranian coercive interference;
- Exploit national sentiment in the region that bristles at Iranian interference through amplified information operations. Leverage information operations to highlight inconsistencies and ulterior motives of the Iranian approach to reduce local support; debunk exaggerated Iranian claims to assure partners and deter further Iranian action by insinuating U.S. and regional partner activities;
- Sustain U.S. and international financial pressure on IRGC and proxy activities; and
- Minimize the space that the IRGC can exploit in the region by:
 - Building the capabilities of and regularly exercising with regional partner security forces, including through the employment of scenario-based exercises focused on Iran and its proxy groups to plan for risk mitigation strategies and determine how far to escalate with Iran; and

- Providing training, advising, and funding for governance and resiliency initiatives in countries vulnerable to Iranian penetration.

Even a U.S. strategic approach that seeks to significantly amplify pressure on Iran cannot be purely punitive, or it will prove escalatory and feed the Iranian narrative that the United States' sole objective is to undermine Iran's stability. Iran has an ideological aversion to engagement with the United States. Thus, the United States should consider a range and combination of incentives to test for areas of constructive Iranian behavior linked to changes that Iran makes, such that they are synchronized as one move. These incentives could include:

- Exploring membership in multinational organizations to enhance Iran's voice in international political and economic issues, making Iran potentially more responsible for its actions by "buying into" the international system (e.g., moving forward with World Trade Organization accession);
- Continuing to include Iran in political negotiations on Syria, Iraq, and Yemen, in the context of a broader strategy created by the United States, Israel, and its Arab regional partners;
- Pursuing economic incentives through third party countries, particularly in Asia, while retaining pressure through U.S. and European sanctions;
- Attempting more commercial sales from the United States and Europe, if Iranian behavior improves and sanctions relief is possible (e.g., the Boeing/Airbus licenses);
- Negotiating payload caps on Iran's missile development; and
- Allowing conventional arms sales to Iran to resume when the JCPOA-ban on conventional weapons trading with Iran expires in 2020.
 - Conventional capability development could diversify Iran's military investments, perhaps with less emphasis on its unconventional capabilities that have proven among the most destabilizing to U.S. and regional interests in the past 37 years.
 - Such conventional capability development must remain in the bounds of the regional military balance of power so as not undermine U.S. allies and partner's security.
 - The United States should assure Israel and Gulf partners that this development is linked to additional capability development, arms sales, and financial incentives for them, in order to preserve their primacy.