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Good Morning, Mr. Chairman, Mr. Vice-Chairman, members of the Commission, thank you for inviting me to testify before you today to offer the Administration's perspective on China's record on non-proliferation. I would like to provide a few brief remarks, and then welcome the opportunity to answer the Commission's questions.

I currently serve as Assistant Secretary for the State Department's Bureau of Verification, Compliance and Implementation. Our bureau is charged by law with ensuring that arms control, nonproliferation, and disarmament agreements and commitments are effectively verifiable; with assessing compliance with such agreements and commitments once they are reached; and with serving as the policy community's primary liaison to the U.S. Intelligence Community on verification and compliance issues. These responsibilities necessarily command our attention, and involve us closely in many of the issues I will discuss today.

I had the honor of testifying before this Commission in July 2003, and my comments then about China's proliferation activities serve as a valuable reference for measuring the progress and pitfalls that the United States has seen with China's proliferation record. I remarked then that China served as a keystone to achieving the Administration's goal of stopping the proliferation of weapons of mass destruction and related technology throughout the world, and today, this precept has not changed. China's economic and technological advancements and its relationships with Iran and North Korea collectively work to reinforce its position as a critical focus of U.S. nonproliferation efforts. Repeatedly since 2003, we have engaged the Chinese at the highest levels of government to reinforce our message that the proliferation of WMD and missile technology is a threat to our mutual security. Today our approach remains the same: to persuade the PRC to better implement and consistently enforce its nonproliferation commitments, while simultaneously seeking to deter Chinese entities engaging in proliferation by changing the cost/benefit analysis to make a change in behavior more attractive to Chinese entities and authorities. Especially in light of Iran's

and North Korea's continued defiance and intransigence, our strategic interest in strengthening China's nonproliferation record remains at the heart of our efforts.

Let me begin by saying that we remain disappointed in the continuing proliferant behavior of certain Chinese entities, and we remain deeply concerned about the Chinese government's commitment towards its nonproliferation obligations. Quite simply, we believe that the Chinese government should do more to consistently enforce its nonproliferation regulations. While we have received repeated assurances from the Chinese that they oppose the proliferation of WMD materials, technology, and their means of delivery, we remain deeply concerned by the proliferant activities of its various entities. China's nonproliferation efforts have shown some improvement over the past several years ---China joined the Nuclear Suppliers Group (NSG) in May 2004, and has supported UNSCRs 1540 on nonproliferation, 1695 on North Korea, and 1696 on Iran, and recently published white papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls. Unfortunately, Chinese entities' record of transferring WMD and missile technologies and materials-- and the record of the Chinese government's enforcement of its own laws and regulations to stem these transfers -- remains unsatisfactory.

Missile Proliferation

The proliferation of missile technology, raw materials, and parts remains our most significant proliferation concern with China. During our discussions with the Chinese government, China has reaffirmed its position that it opposes such proliferation and that it forbids Chinese firms and entities from engaging in transfers that violate its commitments to the United States. Nonetheless, we have seen numerous pledges given by the Chinese government to curb the proliferation of missile materials, only to be followed by transfers of these items by Chinese entities. In response, the U.S. has imposed, or threatened to impose, sanctions on these entities.

In 2000, in response to continuing transfers by Chinese entities, the United States engaged China to obtain a stronger nonproliferation commitment from China. This effort led to a November 2000 commitment under which China pledged not to assist "in any way, any country in the development of ballistic missiles that can be used to deliver nuclear weapons (i.e., missiles capable of delivering a payload of at least 500 kilograms to a distance of at least 300 kilometers)." China also agreed to enact and publish comprehensive missile-related export controls, which took place in 2002. In exchange for China's pledge, the United States agreed to waive sanctions for past assistance by Chinese entities to Iranian and Pakistani missile programs.

Despite China's November 2000 commitment and 2002 export control regulations, Chinese entities continued to transfer missile-related technology and material to missile programs of concern, primarily Iran and North Korea. Moreover, these transfers make considerable contributions to the development of ballistic missiles in these countries. In response to U.S. objections, Chinese officials state that they have taken

action against proliferating firms and tightened export controls; however, these measures are uneven and do not appear to have curtailed much of the activity of concern. We continue to see proliferation of controlled items—items that are listed on China’s export control lists and those listed in the MTCR Annex---and this continued proliferation calls into question China’s stated commitment to control the transfer of such items. What is most frustrating about China’s proliferation, however, is that much of the proliferation is performed by the same entities—the serial proliferators.

The Serial Proliferator Problem

We have raised the issue of serial proliferators with our Chinese counterparts on several occasions—most recently this summer—and have asked the Chinese for specific actions that the government has taken against these entities. The Chinese have reported that they continue to monitor the activities of Chinese entities and take enforcement actions as appropriate, but proliferation continues. Ultimately, on June 13, 2006, the U.S. designated four Chinese entities pursuant to Executive Order 13382, including a U.S.-based representative of one of the companies, for having provided, or attempting to provide, financial, material, technological or other support for Iran’s missile programs.

I recount these actions to highlight the continuing importance of U.S. pressure to improvements in Chinese behavior. We have seen that formal Chinese actions--Beijing’s commitments of 1992, 1994, 1998, and 2000, and its new regulations in 2002, for example – occurred after the application of pressure from the United States, including in the form of the imminent or actual imposition of sanctions.

We will continue to discuss our nonproliferation concerns with the PRC and urge it to effectively implement its export control regulations, and the United Security Council Resolutions it has supported, particularly 1540, 1695, and 1696. The United States will also continue to impose sanctions, when warranted under U.S. legal authorities, on Chinese proliferators or any other entity that proliferates missile-related items or technology. We will continually reinforce the principle that all effective nonproliferation regimes must carry severe repercussions to appropriately shift the cost benefit analysis away from profit to penalty.

Nuclear, Biological, and Chemical Proliferation

Turning to China’s nuclear, biological, and chemical-related nonproliferation efforts, since my last appearance before the Commission, China joined the Nuclear Suppliers Group in 2004. In doing so, China has closed a significant gap in its export regulations covering nuclear materials and technology than had previously existed. China’s export control system appears designed to ensure adequate review for those exports that come to the attention of Chinese export control authorities—the question that concerns the United States is whether the authorities choose to properly exercise their authority.

Similarly, China is a State Party to the Biological Weapons Convention and the Chemical Weapons Convention. We maintain reservations about China's current research activities and dual-use capabilities, which raise the possibility that sophisticated BW and CW work could be underway. For example, because of the possible offensive capabilities of aerosolization techniques, the United States' concerns are underscored by publications indicating military involvement in such research. We also continue to believe that China maintains some elements of an offensive BW capability in violation of its BWC obligations. Despite China's BWC confidence building measure declarations, indications suggest that China maintained an offensive BW program prior to acceding to the BWC in 1984. In addition, the United States believes that China maintains a CW production mobilization capability, although we simply do not have enough information to determine whether China maintains an active offensive CW research and development program.

China has adopted export controls mirroring the Australia Group (AG) control list and on chemicals listed on the CWC Schedules. In addition, China also has instituted "catch-all" provisions for chemical (and biological) goods, which provide a legal basis to control items not on the lists, if the exporter has reason to believe or has been informed that the items are destined for a CBW program. Nonetheless, we continue to have concerns that Chinese entities are transferring AG-controlled items and technology to countries of concern.

North Korea

Let me turn briefly to specifically address the current situation regarding North Korea and China's role in resolving this problem. The recent launches of North Korean missiles, including the Taepodong-2 missile, only adds to the concern surrounding North Korea's missile and, by extension, its nuclear programs. North Korea's continued export of missile components and technology also remains a serious concern. We have identified North Korean entities as proliferators of WMD and sanctioned these entities, including through designations under Executive Order 13382. We have designated Banco Delta Asia under Section 311 of the USA Patriot Act as a primary money laundering concern, and had considerable success in warning governments and banking sectors in many countries of the dangers of doing business with North Korea. UNSCR 1695 calls on all UN member states, consistent with international and national legal authorities, to prevent transfers, including financial resources, to North Korea's WMD and missile programs.

On the diplomatic front, we – along China, Japan, South Korea, and Russia – continue to desire a peaceful resolution of the North Korean nuclear problem through the Six-Party talks. Unfortunately, although we have repeatedly signaled our readiness to work on the implementation of the September 19, 2005 Joint Statement, North Korea, since November 2005, has boycotted the talks. China has played a valuable facilitating role in the multilateral diplomacy to denuclearize North Korea, and we believe it can and should do more to get the North Koreans back to the talks without preconditions. We also expect China to play a responsible role as a permanent member of the UN Security

Council to ensure that the North Korea complies with relevant resolutions and international agreements.

Administration Perspective

As I mentioned previously, China has entered into an impressive array of commitments. It has published two formal papers detailing its nonproliferation policies and procedures for enforcing its domestic export controls and licensing procedures.

Regrettably, China has not entirely fulfilled these promises. Chinese firms and individuals continue to export missile technology to several countries, including rogue states, and the Chinese government's irregular enforcement of the regulations meant to stop such proliferation continues to give the United States deep reservations about the intent of the Chinese government to tackle this issue fully.

The question remains whether this failure reflects an inability or an unwillingness to stop this proliferation. Often, Chinese officials lament the inefficiency of their nascent bureaucratic export control systems, and that Chinese companies too often ignore the central government and violate export control regulations with little fear of government penalty. While we have seen evidence that suggests that the Chinese are increasing their enforcement of their regulations, evidence of recurring transfers by serial proliferators – some of which are state-owned enterprises—suggests that the problem is greater than one of inadequate resources.

Conclusion

The Administration is committed to building a cooperative and constructive relationship with the PRC on the issue of WMD proliferation. Indeed, President Bush stated during President Hu's visit in April of this year, "[p]rosperity depends on security - so the United States and China share a strategic interest in enhancing security for both our peoples. We intend to deepen our cooperation in addressing threats to global security -- including the nuclear ambitions of Iran, the genocide in Darfur, Sudan, the violence unleashed by terrorists and extremists, and the proliferation of weapons of mass destruction."

It is important to recognize that our engagement with China on nonproliferation matters can be contentious. The Chinese continue to express their disappointment and anger over the imposition of sanctions on Chinese companies. We will however, continue to impose sanctions as warranted and required under U.S. law. . At the same time, we look forward to continuing our ongoing dialogue with China about these important issues. Resolution of these ongoing proliferation problems is essential: this Administration takes proliferation very seriously, and will not stand idly by and watch rogue states and terrorists obtain missiles and weapons of mass destruction.

This Administration has demonstrated a determined commitment to use every tool available in checking the spread of these dangerous weapons and the means to deliver them. The Bush Administration has aggressively used the sanctions process to try to shift the cost-benefit analysis for proliferators. The imposition, or even the mere threat of sanctions, can be an influential tool for changing behavior, as few countries or companies wish to be labeled publicly as irresponsible. Sanctions can increase the costs to suppliers, close potential markets, and encourage foreign governments to take steps to adopt more responsible nonproliferation practices and ensure that entities within their borders do not contribute to WMD programs.

Additionally, we are pursuing an array of “defensive measures” to protect ourselves from WMD armed adversaries. Combating WMD requires both offensive and defensive capabilities, and to be successful, we must bring a range of capabilities to bear. One element of the solution is missile defense, and we just completed a successful initial test of the missile defense capabilities last week. We are also exploring the application of dual use technologies as a defensive measure, particularly in the medical field. For example, the same disease surveillance and medical countermeasures required for public health protection against infectious diseases are critical for defending against biological weapons attacks. Finally, perhaps one of the most important defensive measures undertaken by the Bush Administration to combat WMD is the Proliferation Security Initiative, which shows the close interaction among diplomatic, military, economic, law enforcement, and intelligence tools to combat proliferation. Participating countries are applying laws already on the books in innovative ways and cooperating as never before to interdict shipments, to disrupt proliferation networks, and to hold accountable the companies that support them. PSI has now expanded to include support from 70 countries, and continues to grow.

I would like to conclude my remarks by noting that our concerns with China are not irremediable. Officially, China continues to affirm its opposition to the proliferation of WMD and missile systems, and it does have the legal mechanisms in place to support this determination. What we must continue to monitor, however, is the will of the Chinese government to take the concrete steps necessary to implement their regulations clearly and fully, with vigor and transparency.

Mr. Chairman, that concludes my prepared remarks and I am happy to take questions from you and your fellow commissioners.

Drafted: DFunk, VCI/FO

Cleared:

VCI/SI	MSchaeffer	ok
VCI/NA	GSateia	ok
VCO/CW	DGutierrez	ok.
VCI/CCA	RDavis	ok.
ISN/WMDT	DFisher	ok
ISN/MTR	MHardiman	ok
ISN/	EKang	ok.
ISN/NESS	PComella	ok.
EAP/K	YKim	ok.
EAP/CM	NZaring	ok.
T/FO	SElliott	ok.
T/FO	SKoch	ok
S/P	ELacey	info.