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Iran: U.S. Concerns and Policy Responses

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Summary

According to an Administration national security strategy document released on March 16, 2006, the United States “may face no greater challenge from a single country than Iran.” Over the past five years, the Bush Administration has pursued several avenues to attempt to contain or end what it views as the potential threat posed by Iran, including pursuing limited engagement directly or through allies. However, support for a policy of changing Iran’s regime has apparently gained favor within the Administration as Iran has resisted permanent curbs on its nuclear program. In the nearer term, the Administration is intent on slowing or blunting Iran’s nuclear program through concerted action by the United Nations Security Council. Because Iran continues to advance its nuclear program despite international criticism, some advocate military action against Iran’s nuclear infrastructure. International concerns on nuclear issues and other strategic issues have been heightened by the accession of Mahmoud Ahmadinejad, a hardliner, as president.

Iran’s nuclear program is not the only major U.S. concern on Iran. Successive administrations have pointed to the threat posed by Iran’s policy in the Near East region, particularly material support to groups that use violence against the U.S.-led Middle East peace process, including Hizballah in Lebanon and the Palestinian groups Hamas and Palestinian Islamic Jihad. Hamas is forming a new Palestinian government following its victory in January 25, 2006, elections, a development that might cause Hamas to distance itself from terrorism. Alternately, Hamas might hold fast to its rejection of Israel and look to Iran or other hardline Middle Eastern states to circumvent any U.S. or Israeli efforts to pressure the new Hamas-led government. Some senior Al Qaeda activists are in Iran as well, although Iran claims they are “in custody.”

U.S. officials also accuse Iran of attempting to exert its influence in Iraq by providing arms and other material assistance to armed factions, possibly including anti-U.S. Shiite Islamist factions. However, most Iranian-supported factions in Iraq are supportive of the U.S.-led political transition roadmap, and the two announced in March 2006 that they would hold bilateral talks on the issue of stabilizing Iraq.

Iran’s human rights practices and strict limits on democracy have been consistently criticized by official U.S. and U.N. reports, particularly for Iran’s suppression of political dissidents and religious and ethnic minorities. However, Iran holds elections for many senior positions, including that of president. U.S. officials generally see the human rights issue in Iran in a broader context, and not necessarily as a direct threat, in and of itself, to U.S. interests in the region.

For further information, see CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*, by Kenneth Katzman; CRS Report RS21592, *Iran’s Nuclear Program: Recent Developments*, by Sharon Squassoni; CRS Report RS21548, *Iran’s Ballistic Missile Capabilities*, by Andrew Feickert; and CRS Report RS22323, *Iran’s Influence in Iraq*, by Kenneth Katzman. This report will be updated as warranted.

Contents

Political History	1
Regime Stability, Human Rights, and Recent Elections	2
Former President Mohammad Khatemi and the Reformists	2
The Conservative Ascendancy and Election of Ahmadinejad	3
Groups Advocating Change	6
Prominent Dissidents	6
Anti-Regime Groups: People’s Mojahedin Organization of Iran (PMOI)	7
Pro-Shah Activists/Exile Broadcasts	8
Human Rights and Religious Freedom	8
Iran’s Strategic Capabilities and Weapons of Mass Destruction Programs	10
Conventional Military	11
Weapons of Mass Destruction: Nuclear Program	12
Chemical Weapons, Biological Weapons, and Missiles	15
Missiles/Warheads	16
Persian Gulf States	18
Iraq	19
Supporting Anti-Peace Process Groups	20
Central Asia and the Caspian	22
Afghanistan	22
Al Qaeda	23
U.S. Policy Responses and Legislation	23
Bush Administration Policy and Options	24
Regime Change	25
Engagement?	28
Military Action?	28
International Sanctions?	30
U.S. Sanctions	31
Terrorism/Foreign Aid Sanctions	31
Proliferation Sanctions	32
Counter-Narcotics	34
Trade Ban	34
The Iran-Libya Sanctions Act (ILSA) and Regional Oil and Gas Projects	36
Travel-Related Guidance	36
Status of Some U.S.-Iran Assets Disputes	36
Multilateral Policies Toward Iran	37
EU-Iran Trade Negotiations	37
Multilateral, World Bank, and IMF Lending to Iran	37
WTO Membership	38
Conclusion	38
Appendix: Structure of the Iranian Government	40

List of Figures

Figure 2. Map of Iran	41
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Iran: U.S. Concerns and Policy Responses

Much of the debate over U.S. policy toward Iran has centered on the nature of the current regime. Some experts believe that Iran, a country of almost 70 million people, is a threat to U.S. interests because hardliners in Iran's regime dominate and set a policy direction intended to challenge U.S. influence and allies in the region.

Political History

The United States was an ally of the late Shah of Iran, Mohammad Reza Pahlavi ("the Shah"), who ruled from 1941 until his ouster in February 1979. The Shah assumed the throne when Britain and Russia forced his father, Reza Shah Pahlavi (Reza Shah), from power because of his perceived alignment with Germany in World War II. Reza Shah had assumed power in 1921 when, as an officer in Iran's only military force, the Cossack Brigade, he launched a coup against the government of the Qajar Dynasty. He was proclaimed Shah in 1925, founding the Pahlavi dynasty.

The Shah was anti-Communist, and the United States viewed his government as a bulwark against the expansion of Soviet influence in the Persian Gulf. In 1951, he appointed a popular nationalist parliamentarian, Dr. Mohammad Mossadeq, as Prime Minister. Mossadeq was widely considered left-leaning, and the United States was wary of his policies, which included his drive for nationalization of the oil industry. Mossadeq's followers began an uprising in August 1953 when the Shah tried to dismiss Mossadeq, and the Shah fled. The Shah was restored in a CIA-supported coup that year, and Mossadeq was arrested.

The Shah tried to modernize Iran and orient it toward the West, but in so doing he also tried to limit the influence and freedoms of Iran's Shiite clergy. He exiled Ayatollah Ruhollah Khomeini in 1964 because of Khomeini's active opposition to the Shah, opposition based on the Shah's anti-clerical policies and what Khomeini alleged was the Shah's forfeiture of Iran's sovereignty to its patron, the United States.

Khomeini fled to and taught in Najaf, Iraq before going to France in 1978, from which he stoked the Islamic revolution. Mass demonstrations and guerrilla activity by pro-Khomeini forces, allied with a broad array of anti-Shah activists, caused the Shah's government to collapse in February 1979. Khomeini returned from France and, on February 11, 1979, declared an Islamic Republic of Iran. The Islamic republic is characterized by direct participation in government by Shiite Islamic theologians, a principle known as *velayat-e-faqih* (rule by a supreme Islamic jurist). Khomeini was strongly anti-West and particularly anti-U.S., and

relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

Regime Stability, Human Rights, and Recent Elections

About a decade after founding the Islamic republic, Ayatollah Ruhollah Khomeini died on June 3, 1989. The regime he left behind remains reasonably stable, despite internal schisms and substantial unpopularity among intellectuals, educated elites, and many urban women. Upon his death, one of his disciples, Ayatollah Ali Khamene'i, then serving as president, was selected Supreme Leader by an "Assembly of Experts" (an elected body).¹ Khamene'i had served two terms as elected president (1981-1989), but he has lacked the unquestioned religio-political authority of Khomeini. Recently, he has been gaining strength by using his formal powers to appoint heads of key institutions, such as the armed forces and half of the twelve-member Council of Guardians.² This conservative-controlled body reviews legislation to ensure it conforms to Islamic law, and it screens election candidates. Khamene'i has been strengthened by the election as president on June 24, 2005 (second round of voting) of Mahmoud Ahmadinejad, a hardliner. Another unelected body is the Expediency Council, set up in 1988 to resolve legislative disagreements between the *Majles* (parliament) and the Council of Guardians. The Expediency Council is headed by former President (1989-1997) Akbar Hashemi-Rafsanjani; its executive officer is former Revolutionary Guard leader Mohsen Reza'i.

Former President Mohammad Khatemi and the Reformists.

Mohammad Khatemi, who has now been succeeded by Ahmadinejad, was first elected in May 1997, with 69% of the vote. He was re-elected in June 2001, with an even larger 77% of the vote, against nine conservative candidates. Khatemi rode a wave of sentiment for easing social and political restrictions among students, intellectuals, youths, and women. These segments wanted reform, although not an outright replacement of the Islamic republican regime. Khatemi's supporters held about 70% of the 290 seats in the 2000-2004 *Majles* after their victory in the February 18, 2000, elections.

Pro-reform elements gradually became disillusioned with Khatemi for his refusal to confront the hardliners. This dissatisfaction erupted in major student demonstrations in July 1999 in which four students were killed by regime security forces, and Khatemi reluctantly backed the crackdown. On June 8, 2003, a time period marking the fourth anniversary of those riots, regime forces again suppressed pro-reform demonstrators. President Bush issued statements in support of the 2003

¹ The Assembly also has the power to amend Iran's constitution.

² The Council of Guardians consists of six Islamic jurists and six secular lawyers. The six Islamic jurists are appointed by the Supreme Leader. The six lawyers on the Council are selected by the *Majles* (parliament).

demonstrators, although then Secretary of State Powell said the protests represented a “family fight” within Iran.

Khatemi was supported by several political organizations (not parties, which have not formally been allowed to register):

- The Islamic Iran Participation Front (IIPF). The most prominent and best organized pro-reform grouping, it is headed by Khatemi’s brother, Mohammad Reza Khatemi, who was a deputy speaker in the 2000-2004 Majles.
- The student-led Office for Consolidation and Unity. This group became critical of Khatemi for failing to challenge the hardliners.
- The Mojahedin of the Islamic Revolution organization (MIR). Composed mainly of left-leaning Iranian figures who support state control of the economy.
- The Society of Combatant Clerics. A long-time moderate clerical grouping, it is now headed by Khatemi following his departure from the presidency. Khatemi continues to travel abroad and remains a public figure in Iran. A senior member is Mehdi Karrubi, who was speaker of the 2000-2004 Majles. Karrubi finished third in the June 17, 2005 first round of the presidential elections.

With Khatemi constitutionally ineligible to run again in the June 2005 presidential election, reformist organizations (formal “parties” have not been approved) tried to elect another of their own. For the first round of the voting on June 17, many reformists had pinned their hopes on former science minister Mostafa Moin, but he finished fifth, disappointing reformists.

The Conservative Ascendancy and Election of Ahmadinejad. Iran’s conservatives generally want only gradual reform but, more importantly in the view of experts, they want to keep major institutions under the control of their faction. The conservatives, supported by Supreme Leader Khamene’i, have been gaining strength since the February 28, 2003, municipal elections, when reformists largely boycotted and hardliners won most of the seats. They gained additional strength from the February 20, 2004, Majles elections, in which the Council of Guardians disqualified about 3,600 mostly reformist candidates, including 87 members of the current Majles, enabling the conservatives to win a majority (about 155 out of the 290 seats) on turnout of about 51%. The Majles speaker chosen was Gholem Ali Haded-Adel, a relative by marriage of Khamene’i. The United States, most European Union countries, and the U.S. Senate (S.Res. 304, adopted by unanimous consent on February 12, 2004), criticized the elections as unfair, because of candidate screening.

On the tide of these conservative victories, Rafsanjani, regained political prominence and decided to run in the June 2005 presidential elections. He has been the patron of many Majles conservatives, although he ran for president on a pro-free market, pro-reform platform. He was constitutionally permitted to run because a third term would not have been consecutive with his previous two terms as president.

Rafsanjani had several more conservative opponents, three of whom had ties to the Revolutionary Guard. They included former state broadcasting head Ali Larijani; former Revolutionary Guard Air Force commander and police chief, Mohammad Baqer Qalibaf; and Tehran mayor Mahmood Ahmadinejad, who was formerly a commander in the Guard and the *Basij* (a volunteer paramilitary organization that enforces adherence to Islamic customs).

On May 22, 2005, the Council of Guardians, as expected, significantly narrowed the field of candidates to 6 out of the 1,014 persons who filed. (In the 2001 presidential election, the Council permitted to run 10 out of the 814 registered candidates.) At Khamene'i's request, two reformist candidates were reinstated (Moin and Mohsen Mehralizadeh). On the eve of the first round, President Bush criticized the elections as unfair because of the denial of the candidacies of "popular reformers and women who have done so much for the cause of freedom and democracy in Iran."³

In the June 17, 2005 first round, turnout was about 63% (29.4 million votes out of 46.7 million eligible voters). The results were as follows:

Rafsanjani:	21% (moved on to run-off)
Ahmadinejad:	19.5% (moved on to run-off)
Karrubi:	17%
Qalibaf:	13.8%
Moin:	13.77%
Larijani:	05.9%
Mehralizadeh:	04.38%

No candidate achieved a majority, forcing a second round. The first round results proved surprising because few experts foresaw the emergence of Tehran Mayor Ahmadinejad. Ahmadinejad, who is about 49, campaigned as a "man of the people," the son of a blacksmith who lives in modest circumstances, who would promote the interests of the poor and return government to the principles of the Islamic revolution during the time of Ayatollah Khomeini. His official biography says he served with the "special forces" of the Revolutionary Guard, and he served subsequently (late 1980s) as a deputy provincial governor. With his momentum from the first round, Ahmadinejad won a landslide victory in the June 24 runoff, receiving 61.8% to Rafsanjani's 35.7%. Turnout was 47%, less than the first round, suggesting that reformists did not turn out in large numbers to try to prevent Ahmadinejad's election. He became the first non-cleric to be president of the Islamic republic since the assassination of then president Mohammad Ali Rajai in August 1981. He took office on August 6, 2005.

On August 14, 2005, he presented for Majles confirmation a 21-member cabinet composed largely of little-known hardliners, over half of whom were his associates in the Revolutionary Guard, the Basij, or the Tehran mayoralty. However, in possible signs of divisions within the conservative camp, the Majles rejected four of his appointments, mostly because of insufficient experience. The first three of his oil-

³ "Bush Criticizes Iran Election Process as Unfair." Reuters, June 16, 2005.

minister nominees were rejected by the Majles, although his fourth nominee was approved. He has appointed the hardline Ali Larijani, one of his first round rivals, as Secretary General of the Supreme National Security Council; he serves as chief negotiator on nuclear and most other security issues. He also has named a woman as one of his vice presidents, in keeping with a practice begun by Khatemi. His former first round rival, Qalibaf, has now taken Ahmadinejad's former job as Tehran mayor. Ahmadinejad has made no positive overtures to the United States, and he inflamed world opinion with several statements against Israel:

- On October 26, 2005, he stated at a Tehran conference entitled "A World Without Zionism" that "Israel should be wiped off the map" and that "anybody who recognizes Israel will burn in the fire of the Islamic nations' fury." The statement was widely condemned, including in a U.N. Security Council statement and Senate and House resolutions (H.Res. 523 and S.Res. 292) passed in their respective chambers. The statement caused U.N. Secretary General Kofi Annan to delete Iran from his Middle East trip itinerary in November.
- On December 9, while in Mecca, Saudi Arabia, and then in southern Iran on December 14, he questioned the veracity of the Holocaust. In the latter case, he called it a "myth" — and stated that Europe should create a Jewish state in Europe, not in the Middle East. (Purportedly at Ahmadinejad's behest, in January 2006, Iran's Foreign Ministry said it would soon hold a conference on the Holocaust.)
- On January 1, 2006, picking up that same theme, Ahmadinejad said that the European countries created Israel after World War II to continue the process of ridding the European continent of Jews.

Ahmadinejad's statements are emblematic of a perceived lack of foreign policy experience that contributed to the Supreme Leader's October 2005 decision to grant new governmental supervisory powers to Rafsanjani's Expediency Council. This move did not stop Ahmadinejad from removing about 40 senior diplomats, mostly reformist oriented, from their positions overseas, prompting direct criticism of Ahmadinejad by Rafsanjani. However, press reports say Ahmadinejad still is popular among the lower classes who support his defiance of the West and appreciate his directives, soon after taking office, to raise some wages and increase social welfare payments. Ahmadinejad has also sought to parry allegations that he was one of the holders of the 52 American hostages during November 1979-January 1981; that allegation was investigated by the Bush Administration but U.S. intelligence reportedly has determined he was not one of the hostage holders.⁴

Economic Factors Assisting Stability. The regime has been helped in recent years by high oil prices, which are over \$60 per barrel. These same factors

⁴ Wright, Robin. "U.S. Likely to Let Iran's President Visit U.N." *Washington Post*, Aug. 12, 2005.

could help Iran minimize the effects of international sanctions that might be imposed in response to its nuclear activities. However, oil revenues account for about 20% of Iran's gross domestic product (GDP). In addition, Iran's leaders have not corrected economic structural imbalances, such as control of major economic sectors or markets by the quasi-statal "foundations" (*bonyads*) and special trading privileges for Iran's powerful bazaar merchants who form the main constituency for the Supreme Leader and other senior conservatives.

Some Economic Indicators

Economic Growth (2005)	4.8%
Proven Oil Reserves	100 billion barrels (fifth in world)
Refined Gasoline Imports	\$3 billion - \$4 billion value per year (60% from European oil trader Vitol)
Oil Production	4 million barrels per day (mbd)
Oil Exports	2.4 mbd
Major Oil Customers	China - 450,00 barrels per day (bpd) Japan - 800,000 bpd South Korea, Italy
Some Major Trading Partners (2004)	Japan (\$7.5 billion exports to Japan); China (\$3.9 billion exports, \$2.7 billion imports); Italy (\$5.3 billion equally divided import/export); Germany (\$4.9 billion imports from); France (\$3.2 billion imports)
Trade With U.S. (2004)	\$142 million exports to U.S.; \$94 million imports
Foreign Exchange Reserves	\$25 billion (2005)
External Debt	\$12 billion (March 2005)
Income Per Capita (purchasing power parity)	\$8,100 per year
Unemployment Rate	11.2% (2004)

Source: CIA World Factbook, various press, IMF

Groups Advocating Change

The groups analyzed below seek modifications of the regime and its policies or its outright replacement. Those seeking more modest changes have some popularity inside Iran, but their ascendancy, were it to occur, might not fundamentally alter Iran's relations with the United States. Those groups seeking to replace the regime, by accounts of observers, have little popularity or ability to destabilize the regime.

Prominent Dissidents. Several dissidents have been part of the current regime but now seek substantial change, particularly the withdrawal of Iran's clerics from direct participation in government. One such figure, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest, but he remains under scrutiny. He had been Khomeini's designated successor until 1989, when Khomeini dismissed him for allegedly protecting intellectuals and other

opponents of clerical rule. Other prominent dissidents include exiled theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, imprisoned journalist Akbar Ganji (see below), and political activist Hashem Aghajari (of the Mojahedin of the Islamic Revolution), who was initially sentenced to death for blasphemy but whose sentence was overturned; he has been released.

Anti-Regime Groups: People's Mojahedin Organization of Iran (PMOI). Among those groups seeking to replace the current regime, one of the best known is the People's Mojahedin Organization of Iran (PMOI).⁵ It is secular and generally left-leaning; it was formed in the 1960s to try to overthrow the Shah of Iran and advocated a form of Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution and supported the November 1979 takeover of the U.S. Embassy in Tehran, but it was later purged and went into exile.

Even though it is an opponent of Tehran, since the late 1980s, the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997⁶ and the NCR was named as an alias of the PMOI in the October 1999 re-designation. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians — although the group does not appear to purposely target civilians — and by its alleged killing of seven American defense advisers to the former Shah in 1975-1976. On August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI, and NCR and Justice Department authorities closed down those offices. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.⁷

The group's alliance with Saddam Hussein's regime in the 1980s and 1990s contributed to the U.S. shunning of the organization. U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and negotiated a ceasefire with PMOI military elements in Iraq, requiring the approximately 4,000 PMOI fighters to remain confined to their Ashraf camp near the border with Iran. The group's weaponry is in storage, guarded by U.S. military personnel. (U.S. personnel guarding Ashraf are being replaced in April 2006 by Bulgarian troops.)

Press reports continue to say that some Administration officials want the group removed from the FTO list and want a U.S. alliance with it against the Tehran regime.⁸ Then National Security Adviser Condoleezza Rice stated in November 2003 that the United States unambiguously considers the group as a terrorist organization. However, the debate over the group was renewed with the U.S.

⁵ Other names by which this group is known is the Mojahedin-e-Khalq Organization (MEK or MKO) and the National Council of Resistance (NCR).

⁶ The designation was made under the authority of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132).

⁷ "Removal of Iran Group From Terror List Sought." *Washington Post*, Nov. 23, 2002.

⁸ Cloud, David. "U.S., Iran Hit Bumpy Terrain on Road to Rapprochement." *Wall Street Journal*, May 12, 2003.

decision in late July 2004 to grant the Ashraf detainees “protected persons” status under the 4th Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. In June 2003, France arrested about 170 PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, whose whereabouts are unknown); she was released and remains in France.⁹

Pro-Shah Activists/Exile Broadcasts. Some Iranian exiles, as well as some, particularly older, elites still in Iran, want to replace the regime with a constitutional monarchy presumably led by the U.S.-based son of the late former Shah. However, he does not appear to have large-scale support inside Iran. In January 2001, the Shah’s son, Reza Pahlavi, who is about 55 years old, ended a long period of inactivity by giving a speech in Washington D.C. calling for unity in the opposition and the institution of a constitutional monarchy and democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California.¹⁰ Numerous other Iranian exile broadcasts, some not linked to him, emanate from California, where there is a large Iranian-American community, but no U.S. assistance is provided to these stations. (The conference report on the FY2006 foreign aid appropriations, P.L. 109-102, states the sense of Congress that such financial support be considered by the Administration, and this recommendation was apparently factored into a FY2006 supplemental funding request discussed below.)

Human Rights and Religious Freedom

The State Department’s human rights report for 2005, released March 8, 2006, said Iran’s already poor human rights record “worsened” during the year.¹¹ That report, and the 2005 State Department “religious freedom” report (released November 8, 2005), cite Iran for widespread human rights abuses (especially of the Baha’i faith), including summary executions, disappearances, torture, arbitrary arrest and detention, and discrimination against women. Each year since 1999, the State Department religious freedom report has named Iran as a “Country of Particular Concern” under the International Religious Freedom Act. No significant improvement in Iran’s practices on this issue was noted in the International Religious Freedom report for 2005. No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions. Specific issues include the following.

- Since 2000, hardliners in the judiciary have closed hundreds of reformist newspapers, although many have tended to reopen under new names, and authorities have imprisoned or questioned several editors and even some members of the Majles. Iran also has blocked

⁹ For further information, see CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*, by Kenneth Katzman.

¹⁰ Kampeas, Ron. “Iran’s Crown Prince Plots Nonviolent Insurrection from Suburban Washington.” *Associated Press*, Aug. 26, 2002.

¹¹ For text of the 2004 report on Iran, see [<http://www.state.gov/g/drl/rls/hrrpt/2004/41721.htm>].

hundreds of pro-reform websites. On December 19, 2005, Ahmadinejad banned Western music from Iran's state media, reviving a cultural decree from Ayatollah Khomeini's rule.

- There was an apparent beating death of a Canadian journalist of Iranian origin, Zahra Kazemi, while she was in Iranian detention. She had been detained in early July 2003 for filming outside Tehran's Evin prison. The trial of an intelligence agent who allegedly conducted the beating resulted in an acquittal on July 25, 2004, prompting widespread accusations that the investigation and trial were not fair.
- Imprisoned journalist Akbar Ganji, who conducted hunger strikes to protest regime oppression, was released on schedule on March 18, 2006. The Bush Administration had issued a statement calling for his release on July 12, 2005; he was sentenced in 2001 to six years in prison for alleging high-level involvement in a series of murders of Iranian dissident intellectuals that the regime had blamed on "rogue agents" in the security apparatus. (In the 109th Congress, H.Res. 414 expressed the sense of Congress that the United States and United Nations should condemn Iran for Ganji's imprisonment.)
- On the issue of women's rights, the most widely reported issue is the requirement that women fully cover themselves in public, generally with a garment called a *chador*. However, there has been a progressive relaxation of enforcement of this rule, a relaxation that accelerated during Khatemi's presidency and has not, to date, been reversed by Ahmadinejad. Women can vote and run in parliamentary elections, but their candidacies for president have routinely been barred by the Council of Guardians. Iranian women can drive, and many work outside the home, including owning and running their own businesses. Eleven out of the 290 Majles deputies are women.
- Iran is repeatedly cited for repression of the Baha'i community, which Iran's Shiite Muslim clergy views as a heretical sect. In the 1990s, several Baha'is were executed for apostasy (Bahman Samandari in 1992; Musa Talibi in 1996; and Ruhollah Ruhani in 1998). Another, Dhabihullah Mahrami, was in custody since 1995 and died of unknown causes in prison in December 2005. In February 2000, Iran's Supreme Court set aside the death sentences against three other Baha'is. Several congressional resolutions have condemned Iran's treatment of the Baha'is, including S.Con.Res. 57 (106th Congress), which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000. In the 108th Congress, H.Con.Res. 319 contained a sense of Congress on the Baha'is similar to that in previous years.

- On the treatment of Jews, the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys more freedoms than Jewish communities in several other Muslim states, although in practice its freedom to practice its religion is limited, and Iranian Jews remain reluctant to speak out for fear of reprisals. During 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews (mostly teachers, shopkeepers, and butchers) from the Shiraz area that it said were part of an “espionage ring” for Israel. After an April-June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000), receiving sentences ranging from 4 to 13 years. A three-judge appeals panel reduced the sentences, and the releases began in January 2001; the last five were freed in April 2003.
- The State Department report notes other discrimination against Sufis and Sunni Muslims. A State Department official testified on March 8, 2006, that the regime had beaten Tehran bus drivers who were demonstrating for the release of eight labor leaders who were incarcerated after a strike for higher wages. The leaders were released in mid-March 2006.

Successive administrations have not generally considered Iran’s human rights record as a strategic threat to U.S. interests, but the Bush Administration has recently stepped up criticism of Iran’s human rights record as part of its effort to pressure Iran. The Bush Administration has established with European allies and Canada a “Human Rights Working Group” that meets quarterly, by video-conference, to coordinate a response to Iran’s human rights abuses. In his November 30, 2005, speech, Under Secretary of State Nicholas Burns said the United States is working with other countries for the release of all political prisoners, including Reza Alijani, Hoda Saber, Manouchehr Mohammadi, Taghi Rahmani, and Nasser Zarafshan. A special U.N. Human Rights Commission monitoring mission for Iran, consisting of reports by a “Special Representative” on Iran’s human rights record, was conducted during 1984-2002. Iran has since agreed to “thematic” monitoring consisting of periodic U.N. investigations of specific aspects of Iran’s human rights record. Iran is a party to the two international human rights covenants.

Iran’s Strategic Capabilities and Weapons of Mass Destruction Programs

For the past two decades, the United States has sought to contain the strategic threat posed by Iran. An Administration national security strategy document released March 16, 2006, says the United States “may face no greater challenge from a single country than from Iran,” based on Iran’s growing weapons of mass destruction programs (WMD) and its expanding ability to project power in its immediate region, and its support for radical Islamist movements, discussed later.

Conventional Military

Iran's armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard. The latter, which also controls the *Basij* volunteer militia that enforces adherence to Islamic customs, is generally loyal to the hardliners and, according to some recent analysis, is becoming more assertive. That trend will likely continue now that a former Guard has become president. Iran's conventional forces are likely sufficient to deter or fend off conventional threats from Iran's relatively weak neighbors such as post-war Iraq, Turkmenistan, Azerbaijan, and Afghanistan but are largely lacking in logistical ability to project power much beyond Iran's borders. Lacking such combat capability, Iran has avoided cause for conflict with its more militarily capable neighbors such as Turkey and Pakistan.

Iran, which has completed a force modernization with Russian-supplied combat aircraft and tanks and Chinese-supplied naval craft in the mid-1990s, is not considered by U.S. commanders in the Gulf to be a significant conventional threat to the United States. However, Iran has developed a structure for unconventional warfare that gives Iran the capability to partly compensate for its conventional weakness. The weaponry Iran might field for such operations includes

- Indigenously produced anti-ship missiles, and North Korean-supplied torpedo and missile boats. In early 2005, Commander of U.S. Central Command Gen. John Abizaid and head of the Defense Intelligence Agency Vice Admiral Lowell Jacoby both said Iran could use these newly acquired capabilities to block the Strait of Hormuz at the entrance to the Persian Gulf briefly, or to threaten the flow of oil through that waterway.¹²
- Coastal and ship-borne cruise missiles (Chinese-supplied HY-2 Seerseekers, and C-802s) that could be used to threaten Gulf state oil export terminals across the Gulf or U.S. ships.
- Three Russian-supplied Kilo-class submarines with "Club-S" (120 mile range) anti-ship missiles.¹³ Russia reportedly might upgrade the submarines, which would presumably enhance Iran's conventional naval capabilities.
- The Revolutionary Guard-controlled fleet of about 40 small (Swedish-made Boghammer) boats that could be used in small-boat suicide or other attacks, or to lay mines in the Strait.
- On December 3, 2005, Russia announced an agreement to sell Iran \$1 billion in arms, mostly for 29 anti-aircraft missile systems (SA-15 "Gauntlet"), raising fears of a possible new round of Russian sales to Iran of major combat equipment.

¹² Jacoby testimony before the Senate Intelligence Committee. Feb. 16, 2005.

¹³ Pronina, Lyuba. "Paper: Iran In Talks to Refurbish Subs." *Moscow Times*, July 5, 2005.

Weapons of Mass Destruction: Nuclear Program¹⁴

Some observers believe that a long-anticipated crisis between Iran and the international community over Iran's perceived nuclear ambitions has arrived. Partly because of acceleration of some of Iran's WMD programs, particularly its nuclear program, President Bush, in his January 29, 2002 State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea. Despite professions that WMD is inconsistent with Iran's ideology, virtually all Iranian factions appear to agree on the utility of WMD, particularly the acquisition of a nuclear weapons capability, as a means of ending its perceived historic vulnerability to U.S. domination and a symbol of Iran as a major nation. Some see Iran's WMD programs as an instrument for Iran to dominate the Persian Gulf. There are also fears Iran might transfer WMD to some of the extremist groups it supports, such as Lebanese Hizbollah, although there is no evidence that Iran has taken any such steps.

The Administration and the U.S. intelligence community¹⁵ assert that Iran is determined to achieve a nuclear weapons capability, that it does not need a civilian nuclear program because it has vast oil and gas reserves, and that it has not upheld its obligations under the 1968 Nuclear Non-Proliferation Treaty (NPT). Many outside experts appear to agree that Iran's goal is to achieve a nuclear weapons capability eventually. On June 18, 2003, President Bush was quoted by press reports as stating that the United States would "not tolerate construction" of a nuclear weapon by Iran, and he has since reiterated that, most recently on January 30, 2006.

Iranian leaders insist that Iran's nuclear program is for peaceful purposes only because it cannot count on energy exports indefinitely. Iran asserts it will not give up the "right" to enrich uranium to make nuclear fuel, which Iran says is allowed under the NPT,¹⁶ because it does not want other nations or organizations to control its nuclear fuel supply. The IAEA has, to date, been unable to affirm that Iran's program is purely peaceful, and its reports on January 31, 2006, and February 27, 2006 say documents found by the IAEA show a possible "military nuclear dimension" to Iran's program, including plans for high explosives and warheads.

Although suspicions of Iran's intentions are widely shared, there is disagreement over the urgency of the issue. In testimony before the Senate Intelligence Committee on February 16, 2005, DIA head Adm. Jacoby (see above) said that, "Unless constrained by a nuclear non-proliferation agreement, Tehran probably will have the ability to produce nuclear weapons early in the next decade." In August 2005, press reports about an intelligence community estimate said the U.S. estimate of an Iranian

¹⁴ For further information, see CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, by Sharon Squassoni.

¹⁵ The Central Intelligence Agency, in an unclassified report to Congress covering July 1, 2003 - Dec. 31, 2003, says the "United States remains convinced that Tehran has been pursuing a clandestine nuclear weapons program..."

¹⁶ For Iran's arguments about its program, see Iranian paid advertisement "An Unnecessary Crisis — Setting the Record Straight About Iran's Nuclear Program," in the New York Times, Nov. 18, 2005. P. A11.

nuclear weapons ranges from 6-10 years from then.¹⁷ In his February 2, 2006, threat briefing to the Senate Intelligence Committee, Director of National Intelligence John Negroponte said that Iran probably does not have a nuclear weapon or “produced or acquired the necessary fissile material” for one. Other experts focus on a so-called “point of no return,” a point at which Iran has the expertise needed for a nuclear weapon, a point that could be reached within a year by some estimates.

European Diplomatic Efforts/Agreement One. The heightened U.S., international, and IAEA attention to Iran’s nuclear program began in late 2002 after Iran confirmed PMOI allegations that it was building two additional facilities that could be used to produce fissile material useful for a nuclear weapon. The Natanz facility could produce enriched uranium, and the Arak facility reportedly is a heavy water production plant considered ideal for the production of plutonium. It was also revealed in 2003 that the founder of Pakistan’s nuclear weapons program, Abdul Qadeer (A.Q.) Khan, sold Iran and other countries (Libya, North Korea) nuclear technology and designs.¹⁸

At the same time, Russia, despite its own growing concerns about Iran’s intentions, continued work on an \$800 million nuclear power plant at Bushehr, under a January 1995 contract. Russia’s Federal Atomic Energy Agency said in October 2004 that the reactor was essentially complete, but Russia insisted that Iran sign an agreement under which Russia would provide reprocess the plant’s spent nuclear material; after many delays, that agreement was signed on February 28, 2005. The plant is expected to become operational in late 2006. This agreement somewhat eased U.S. and other concerns that the plant could give Iran additional technologies for a nuclear weapons program (plutonium, for example). Iran wants to build 20 more nuclear power plants, including possibly six by Russia. On December 5, 2005, Iran announced it is putting out for bid two 1,000 megawatt reactors and said an Iranian company would build a 300 megawatt reactor in Khuzestan Province.

Although skeptical of prospects for success, the Bush Administration in March 2005 publicly declared its support for a separate diplomatic effort since 2003 by France, Britain, and Germany (the “EU-3”) to negotiate curbs on Iran’s program. These and other countries believe it preferable to keep Iran in the NPT. On October 21, 2003, the EU-3 and Iran issued a joint statement in which Iran pledged, in return for peaceful nuclear technology, to (1) fully disclose its past nuclear activities; (2) to sign and ratify the “Additional Protocol,” to the NPT (which would allow for enhanced inspections); and (3) to temporarily suspend uranium enrichment activities. Iran signed the Additional Protocol on December 18, 2003, and the IAEA says Iran is largely abiding by its provisions, although the Majles has not yet ratified it. The agreement deteriorated after the IAEA reports of November 10, 2003, and February 24, 2004, that stated that Iran had violated its NPT reporting obligations over an 18-

¹⁷ Linzer, Dafna. “Iran Is Judged 10 Years From Nuclear Bomb.” *Washington Post*, Aug. 2, 2005; Weissman, Steven and Douglas Jehl. “Estimate Revised On When Iran Could Make Nuclear Bomb.” *New York Times*, Aug. 3, 2005.

¹⁸ Lancaster, John and Kamran Khan. “Pakistanis Say Nuclear Scientists Aided Iran.” *Washington Post*, Jan. 24, 2004.

year period.¹⁹ In July 2004, Iran broke the IAEA's seals on some of its nuclear centrifuges, scuttling the deal.

November 14, 2004, Paris Agreement.²⁰ In the face of the U.S. threat to push for Security Council action, the EU-3 and Iran resumed negotiations to reach an interim agreement on Iran's nuclear program and then work toward a more permanent agreement. Under this more specific November 14, 2004 "Paris Agreement," Iran agreed to suspend uranium enrichment (as of November 22, 2004) in exchange for a resumption of talks on an Iran-EU trade agreement, support for Iran's entry into the World Trade Organization, and other assistance.²¹ An IAEA board resolution (November 29, 2004) recognized the agreement.

After this interim agreement was reached, EU-3 - Iran negotiations on a more permanent nuclear pact began on December 13, 2004, and related EU-Iran talks on a trade and cooperation accord began in January 2005. The nuclear talks also included "working groups" discussing "security" issues and economic cooperation. On March 11, 2005, the Bush Administration announced it would support the EU-3 talks by offering some economic incentives to Iran. The incentives included dropping U.S. objections to Iran's application to the World Trade Organization (WTO), which it did in May 2005, and to consider sales of U.S. civilian aircraft parts to Iran, a step not yet taken. The Administration decided not to directly join the talks.

Reference to the Security Council. The Paris Agreement broke down just after the June 2005 Iranian presidential election. The EU-3 presented its "final settlement" plan to Iran on August 5, 2005, reportedly offering to assist Iran with peaceful uses of nuclear energy (medicine, agriculture, and other civilian uses) and limited security guarantees in exchange for Iran's ending uranium enrichment, dismantlement of its heavy water reactor at Arak, its agreement to no-notice nuclear inspections, and pledge not to leave the NPT (which has a legal exit clause). Iran immediately rejected the offer because it forbade uranium enrichment. On August 8, 2005, Iran broke the IAEA seals on its uranium "conversion" (one step before enrichment) facility at Esfahan and began conversion.

On September 24, 2005, a majority vote of the IAEA board voted to declare Iran in non-compliance with the NPT and to refer the issue to the Security Council if Iran did not come back into compliance with the Paris Agreement.²² However, the IAEA

¹⁹ Murphy, Francois. "U.N. Watchdog Accuses Iran of Unanswered Questions." *Reuters*, Feb. 25, 2004.

²⁰ For text of the agreement, see [http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran_14112004.shtml].

²¹ Weisman, Steven. "U.S. In Talks With Europeans on a Nuclear Deal With Iran." *New York Times*, Oct. 12, 2004.

²² Voting in favor: United States, Australia, Britain, France, Germany, Canada, Argentina, Belgium, Ghana, Ecuador, Hungary, Italy, Netherlands, Poland, Portugal, Sweden, Slovakia, Japan, Peru, Singapore, South Korea, India. Against: Venezuela. Abstaining: Pakistan, Algeria, Yemen, Brazil, China, Mexico, Nigeria, Russia, South Africa, Sri Lanka, Tunisia, and Vietnam.

resolution did not set a time frame for the referral. Iran headed off immediate action by allowing new IAEA inspections of the military-related Parchin plant and by providing new information on a 1987 offer by the A.Q. Khan network of advanced centrifuge designs that could be used for uranium enrichment. It did not cease its uranium conversion, although the conversion facility remained under IAEA inspection. Continuing to back diplomacy, the Administration supported a mid-November 2005 Russian proposal to Iran, supported by the EU-3, to establish a facility in Russia at which Iranian uranium would be enriched, thereby enabling Iran to claim it had retained its right to enrich. Iran did not accept the proposal, instead asserting its right to perform enrichment inside Iran, although it did not reject, and still has not completely rejected, the idea outright. The United States opposes any Russian-brokered compromise that would allow Iran to retain in Iran even a small research enrichment capability. The Iranian Majles voted to block any further IAEA inspections if Iran were referred to the Security Council.

With an IAEA board meeting set for March 6, 2006, Iran on January 3, 2006 announced that it would resume uranium enrichment for “research” (not commercial quantity); it subsequently broke IAEA seals at its uranium enrichment facility at Natanz and at related locations (Pars Trash and Farayand Technique). On February 4, 2006, the IAEA board voted 27-3²³ for a resolution to “report” to the U.N. Security Council, after the IAEA reports steps required of Iran to come back into compliance. After the vote, Iran ceased allowing the voluntary IAEA inspections permitted under the Paris Agreement and had the IAEA remove some monitoring equipment. The requested IAEA report of February 27, 2006 confirmed that Iran had begun some enrichment activities (10 centrifuges) and therefore the March 6-8, 2006 IAEA board meeting did not withhold referral of the case to the U.N. Security Council.

The Council deliberated during March 13 - 29, finally agreeing on a Security Council presidential statement (not a Council resolution) that was somewhat weaker than the United States and its close allies had wanted. The statement set a 30-day time limit for Iran to cease uranium enrichment and meet other IAEA requirements, after which time the Council will undertake further deliberations if Iran does not comply.²⁴ However, opposition from Russia and China led to the exclusion from the statement of references to possible U.N. sanctions, which both oppose as providing a pretext or prelude to what they consider disproportionate U.S./international action against Iran. Should the Security Council subsequently consider sanctions, possible measures, their impact, and Iranian reactions are discussed later in this paper.

Chemical Weapons, Biological Weapons, and Missiles

Official U.S. reports and testimony, particularly the semi-annual CIA reports to Congress on WMD acquisitions worldwide, continue to state that Iran is seeking a self-sufficient chemical weapons (CW) infrastructure, and that it “may have already” stockpiled blister, blood, choking, and nerve agents — and the bombs and shells to

²³ Voting no: Cuba, Syria, Venezuela. Abstaining: Algeria, Belarus, Indonesia, Libya, South Africa.

²⁴ See: [<http://daccessdds.un.org/doc/UNDOC/GEN/N06/290/88/PDF/N0629088.pdf?OpenElement>]

deliver them. This raises questions about Iran's compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. Recent CIA reports to Congress say Iran "probably maintain[s] an offensive [biological weapons] BW program ... and probably has the capability to produce at least small quantities of BW agents."²⁵ U.S. official reports have not asserted that Iran has transferred WMD to third countries or groups, but a *Jane's Defence Weekly* report of October 26, 2005, said that Iran agreed in July 2005 to provide Syria with CW technical assistance — including advanced equipment and facilities construction — to enable Syria to independently produce CW agent precursors.

Missiles/Warheads.²⁶ Largely with foreign help, Iran is becoming self sufficient in the production of ballistic missiles. DNI Negroponte testified on February 2, 2006 (discussed above) that Iran "already has the largest inventory of ballistic missiles in the Middle East, and Tehran views its ballistic missiles as an integral part of its strategy to deter, and if necessary retaliate against, forces in the region, including U.S. forces."

- *Shahab-3*. Two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of tests in June 2003. Iran subsequently called the *Shahab-3*, which would be capable of hitting Israel, operational and in production, and Iran formally delivered several of them to the Revolutionary Guard. Iran publicly displayed six *Shahab-3* missiles in a parade on September 22, 2003. Despite Iran's claims, U.S. experts say the missile is not completely reliable, and Iran tested a "new" [purportedly more accurate] version of it on August 12, 2004. Iran called the test successful, although some observers said Iran detonated the missile in mid-flight, raising questions about the success of the test. On May 31, 2005, Iran announced it had successfully tested a solid-fuel version of the *Shahab-3*.
- *Warheads*. A *Wall Street Journal* report of September 14, 2005, said that U.S. intelligence believes Iran is working to adapt the *Shahab-3* to deliver a nuclear warhead. Subsequent press reports say that U.S. intelligence captured an Iranian computer in mid-2004 showing plans to construct a nuclear warhead for the *Shahab*.²⁷ Iran denied work on such a warhead, but the IAEA is seeking additional information from Iran on the material.

²⁵ "Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 July Through 31 December 2003," [<http://www.cia.gov>].

²⁶ See CRS Report RS21548, *Iran's Ballistic Missile Capabilities*, by Andrew Feickert.

²⁷ Broad, William and David Sanger. Relying On Computer, U.S. Seeks to Prove Iran's Nuclear Aims. *New York Times*, Nov. 13, 2005.

- *Shahab-4*. In October 2004, Iran announced it had succeeded in extending the range of the Shahab-3 to 1,200 miles, and it added in early November 2004 that it is capable of “mass producing” this longer-range missile, which Iran calls the Shahab-4. An *Agence France Presse* report of February 6, 2006, said an Iranian test of this missile in January 2006 was successful. If Iran has made this missile operational with the capabilities Iran claims, large portions of the Near East and Southeastern Europe would be in range, including U.S. bases in Turkey. The PMOI asserts Iran is secretly developing an even longer range missile, 1,500 miles, with the help of North Korean scientists.²⁸ On March 31, 2006, Iran claimed to have tested a missile, possibly a *Shahab-4*, that Iran says has multiple, separately targeted warheads. (Over the next few days, it announced tests of several other missiles; one it said could evade underwater detection and could be fired undetected from helicopters and jets. U.S. officials said the technological claims could be exaggerated.)
- *ICBM*. Iran’s asserted progress on missiles would appear to reinforce the concerns of the U.S. intelligence community. In February 2005, DIA Director Jacoby testified that Iran might be capable of developing an intercontinental ballistic missile (3,000 mile range) by 2015,²⁹ but that it was not yet clear whether Iran has decided to field such a system.
- *Other Missiles*. On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile (solid propellant), and Iran said in late September 2002 that it had begun production of the missile.³⁰ On March 18, 2005, the *London Financial Times* reported that Ukraine has admitting selling 12 “X-55” cruise missiles to Iran in 2001; the missiles are said to have a range of about 1,800 miles. Iran also possesses a few hundred short-range ballistic missiles, including the *Shahab-1* (Scud-b), the *Shahab-2* (Scud-C), and the *Tondar-69* (CSS-8).

Foreign Policy and Support for Terrorist Groups

Iran’s foreign policy is a product of the ideology of Iran’s Islamic revolution, blended with and sometimes tempered by long-standing national interests. In the decade prior to Ahmadinejad’s election, Iran tried to normalize relations with most of its neighbors, although it did not end all efforts to actively influence internal events in neighboring and nearby states. The State Department report on

²⁸ Jehl, Douglas. “Iran Reportedly Hides Work On a Longer-Range Missile.” *New York Times*, Dec. 2, 2004.

²⁹ “Greater U.S. Concern About Iran Missile Capability.” *Reuters*, Mar. 11, 2002.

³⁰ “Iran: New Missile on the Assembly Line.” *New York Times*, Sept. 26, 2002.

international terrorism for 2004, released April 23, 2005, again stated, as it has for most of the past decade, that Iran “remained the most active state sponsor of terrorism in 2004,” although the report again attributes the terrorist activity to two hardline institutions: the Revolutionary Guard and the Intelligence Ministry.³¹

Persian Gulf States.³² During the 1980s and early 1990s, Iran sponsored Shiite Muslim extremist groups opposed to the Sunni Muslim-led monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). These activities appeared to represent an effort by Iran to structure the Gulf region to its advantage by “exporting” its Islamic revolution. However, Iran’s efforts were unsuccessful, and led the Gulf states to ally closely with the United States. By the mid-1990s, and particularly during Khatemi’s presidency, Iran shifted away from confrontation and reduced support for Gulf Shiite dissident movements there. Some believe that Ahmadinejad, who is associated with the Revolutionary Guard and other hardline institutions, might shift back to a more confrontational stand toward the Gulf states, although his government has not undertaken such a policy shift, to date. Ahmadinejad visited Kuwait in March 2006, the highest-ranking Iranian visit to that state in 25 years; the two countries signed a memorandum on March 20 to coordinate against smuggling and drug trafficking. The Gulf states nonetheless remain wary as discussed below.

- *Saudi Arabia.* Many observers closely watch the relationship between Iran and Saudi Arabia as an indicator of Iran’s overall posture in the Gulf. During the 1980s, Iran sponsored disruptive demonstrations at annual Hajj pilgrimages in Mecca, some of which were violent, and Iran sponsored Saudi Shiite dissident movements. Iran and Saudi Arabia restored relations in December 1991 (after a four-year break), and progressed to high-level contacts during Khatemi’s presidency. In May 1999, Khatemi became the first senior Iranian leader to visit Saudi Arabia since the Islamic revolution; he visited again on September 11, 2002. The exchanges suggested that Saudi Arabia had moved beyond the issue of the June 25, 1996, Khobar Towers housing complex bombing, which killed 19 U.S. airmen, and was believed by some to have been orchestrated by Iranian agents.³³
- In April 1992, Iran expelled UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a

³¹ U.S. Department of State. *Patterns of Global Terrorism: 2002*. Released Apr. 2003.

³² See CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2004*, by Kenneth Katzman.

³³ Walsh, Elsa. “Annals of Politics: Louis Freeh’s Last Case.” *The New Yorker*, May 14, 2001. The June 21, 2001 federal grand jury indictments of 14 suspects (13 Saudis and a Lebanese citizen) in the Khobar bombing indicate that Iranian agents may have been involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. The 9/11 Commission final report asserts that Al Qaeda might have had some as yet undetermined involvement in the Khobar Towers attacks.

1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE has sought to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. The UAE has not pressed the issue vigorously in several years, although the UAE still insists the islands dispute be kept on the agenda of the U.N. Security Council (which it has been since December 1971). The United States, which is concerned about Iran's military control over the islands, supports UAE proposals but takes no position on sovereignty.

- Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (called South Pars on Iran's side) and through which Qatar earns large revenues for natural gas exports. Qatar's fears were heightened on April 26, 2004, when Iran's deputy Oil Minister said that Qatar is probably producing more gas than "her right share" from the field and that Iran "will not allow" its wealth to be used by others.
- In 1981 and again in 1996, Bahrain officially and publicly accused Iran of supporting Bahraini Shiite dissidents (the Islamic Front for the Liberation of Bahrain, Bahrain-Hizbollah, and other Bahraini dissident groups) in efforts to overthrow the ruling Al Khalifa family. Bahrain is about 60% Shiite, but its government is dominated by the Sunni Muslim Al Khalifa family. Tensions eased substantially during Khatemi's presidency, but Bahraini leaders fear that Ahmadinejad might again stoke Shiite unrest similar to that which rocked Bahrain during 1994-1998.

Iraq. The U.S. military ousting of Saddam Hussein appears to have benefitted Iran strategically. This issue is covered in depth in CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman. The main thrust of Iran's strategy in post-Saddam Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure political and electoral Shiite dominance of post-Saddam Iraq. However, Iran is increasingly close to anti-U.S. Shiite cleric Moqtada Al Sadr, who is influential in Iraq's politics, but whose militia has been clashing with British peacekeeping forces in Basra since mid-2005 and conducted two major uprisings against U.S. forces in 2004. Secretary of Defense Rumsfeld said on March 7, 2006, that Iran had sent members of its Revolutionary Guard "Qods Force" (its export-of-the-revolution unit) into Iraq to assist militant forces, presumably those of Sadr.

In an effort to limit opportunities for Iran to act against U.S. interests in Iraq, in November 2005 U.S. Ambassador to Iraq Zalmay Khalilzad said he had received approval from President Bush to begin a diplomatic dialogue with Iranian officials on the issue of Iraq stability. On March 17, 2006, Iranian officials publicly accepted talks on Iraq, although they indicated the hope that the talks might expand to bilateral issues such as Iran's nuclear program — a possible attempt by Iran to head off U.S. pressure for U.N. sanctions on Iran over that issue. The United States says the talks will remain limited to Iraq and will provide the United States an opportunity to make

known to Iran its concerns about Iranian supplies of weaponry to Shiite militias there. No talks have actually taken place, to date.

Supporting Anti-Peace Process Groups. Iran's support for terrorist groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct the U.S.-led Middle East peace process. Successive State Department reports have repeatedly accused Iran of providing funding, weapons, and training to Hamas, Palestinian Islamic Jihad, Hizbollah, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), all of which are named as foreign terrorist organizations (FTO) by the State Department for their use of violence against Israelis and efforts to undermine the Arab-Israeli peace process. Of these groups, Hizbollah and PIJ are closest politically to Iran. The State Department report for 2004 added the Al Aqsa Martyr's Brigades, a non-Islamist Palestinian group, to those groups Iran assists. State Department terrorism reports since 2002 have said that Iran, possibly via Hizbollah, has been encouraging coordination among Palestinian terrorist groups, particularly Hamas and PIJ, since the September 2000 Palestinian uprising.

Some see Iran's policy further strengthened by Hamas' victory in the January 25, 2006, Palestinian legislative elections, although Hamas activists say they are not politically close to Iran because Iran is mostly Shiite, while Hamas members are Sunni Muslims.³⁴ Hamas was reputed to receive about 10% of its budget in the early 1990s from Iran, although since then Hamas has developed many other sources of funding from wealthy Persian Gulf donors and supporters in Europe and elsewhere. Others believe that Hamas now has a stake in running the Palestinian Authority and is less likely to accept advice or influence from Iran if such advice conflicts with Palestinian interests. On February 22, 2006, Iran (Ali Larijani) pledged unspecified amounts of financial aid to Hamas to help it cope with a possible reduction in international aid following its assumption of governmental power.

Iran also has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). Ahmadinejad's various statements on Israel, discussed above, have raised Israeli fears of potential Iranian aggression, particularly if it acquires a nuclear weapon and related warhead. However, other Iranian leaders have made similar statements in the past. Khamene'i has called Israel a "cancerous tumor" and made other statements suggesting that he seeks Israel's destruction. In December 2001, Rafsanjani said that it would take only one Iranian nuclear bomb to destroy Israel, whereas a similar strike against Iran by Israel would have far less impact because Iran's population is so much larger than Israel's.

On the other hand, there have been differences within Iran's leadership on this issue. During his presidency, Khatemi generally refrained from inflammatory statements against Israel and even conversed with Israel's president at the funeral of Pope John Paul II. The Iranian Foreign Ministry, considered an institutional ally of reformists, has tried to soften or explain Ahmadinejad's statements as "emotional." Ministry spokespersons have repeatedly stated that Iran's official position is that it

³⁴ CNN "Late Edition" interview with Hamas co-founder Mahmoud Zahar, Jan. 29, 2006.

would not seek to block any final Israeli-Palestinian settlement, but that the peace process is weighted toward Israel and will not likely result in a fair deal for the Palestinians.

Lebanese Hizballah. Iran maintains a close relationship with Lebanese Hizballah, a Shiite Islamist group, formed in 1982 by Lebanese Shiite clerics sympathetic to Iran's Islamic revolution and responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s.³⁵ Hizballah maintains military forces along the border that operate outside Lebanese government control, even though the United Nations has certified that Israel had completed its withdrawal from southern Lebanon (May 2000) and despite U.N. Security Council Resolution 1559 (September 2, 2004) that requires the militia's dismantlement. Hizballah asserts that Israel still occupies small tracts of Lebanese territory (Shebaa Farms). A small number (less than 50, according to a *Washington Post* report of April 13, 2005) of Iranian Revolutionary Guards reportedly remain in Lebanon to coordinate Iranian arms deliveries to Hizballah.³⁶ Past reported shipments have included Stingers obtained by Iran in Afghanistan, mortars that can reach the Israeli city of Haifa and, in 2002, over 8,000 Katyusha rockets.³⁷ The State Department report on terrorism for 2004 (released April 2005) says Iran supplied Hizballah with an unmanned aerial vehicle (UAV), the *Mirsad*, that Hizballah briefly flew over the Israel-Lebanon border on November 7, 2004 and April 11, 2005.

Although it retains its militia, Hizballah is evolving into more of a political movement in Lebanon. In March 2005, it organized a huge demonstration against U.S. and other international pressure on Syria to completely withdraw from Lebanon, although Syria did subsequently withdraw its military (and intelligence) forces. The Syrian withdrawal has, by some accounts, left a vacuum for Iran to expand its influence in Lebanon. In the Lebanese parliamentary elections of May - June 2005, Hizballah expanded its presence in the Lebanese parliament; it now holds 14 seats in the 128-seat parliament. On the strength of this showing, one Hizballah member was given a cabinet seat (Mohammad Fneish, Minister of Energy and Water Resources), positioning Hizballah to exert greater influence on Lebanese government decisions. Despite Hizballah's record of attacks on U.S. forces and citizens in Lebanon during the 1980s, President Bush indicated, in comments to journalists in March 2005, that the United States might accept Hizballah as a legitimate political force in Lebanon if it disarms. However, because Hizballah has not yet disarmed, the United States continues to refuse to meet with any Hizballah members.

In the 109th Congress, two similar resolutions (H.Res. 101 and S.Res. 82) have passed their respective chambers. They urge the EU to classify Hizballah as a

³⁵ Hizballah's last known terrorist attacks outside Lebanon was the July 18, 1994 bombing of a Jewish community center in Buenos Aires, which killed 85. On Mar. 11, 2003, an Argentinian judge issued arrest warrants for four Iranian diplomats, including former Intelligence Minister Ali Fallahian, for alleged complicity in the attack. Hizballah is also believed to have committed the Mar. 17, 1992, bombing of Israel's embassy in that city.

³⁶ Wright, Robin. "U.S. Blocks A Key Iran Arms Route to Mideast." *Los Angeles Times*, May 6, 2001.

³⁷ "Israel's Peres Says Iran Arming Hizballah." *Reuters*, Feb. 4, 2002.

terrorist organization; S.Res. 82 calls on Hizballah to disband its militia as called for in U.N. Security Council Resolution 1559 (September 2, 2004). The House-passed State Department authorization bill (H.R. 2601) contains provisions calling on the Bush Administration to help the Lebanese government disarm Hizballah and threatening the withholding of U.S. aid to Lebanon if it does not disarm Hizballah.

Central Asia and the Caspian. Iran's policy in Central Asia has thus far emphasized Iran's rights to Caspian Sea resources, particularly against Azerbaijan. That country's population, like Iran's, is mostly Shiite Muslim, but Azerbaijan is ruled by secular leaders. In addition, Azerbaijan is ethnically Turkic, and Iran fears that Azerbaijan nationalists might stoke separatism among Iran's large population of Turkic ethnicity. In July 2001, Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian Iran considers its own. The United States called that action provocative, and it offered new border security aid and increased political support to Azerbaijan. Iran and Armenia, an adversary of Azerbaijan, agreed on expanded defense cooperation in early March 2002. There was little evident progress on a bilateral division of their portions of the Caspian. Strains might increase now that the Baku-Tblisi-Ceyhan oil pipeline, intended to provide alternatives to Iranian oil, is beginning operations.

Afghanistan.³⁸ Since the fall of the Taliban, an adversary of Tehran, Iran has moved to restore some of its Iran's traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate. It aided Northern Alliance figures that were prominent in the post-Taliban governing coalition, and Iranian companies have been extensively involved in road building and other construction projects in western Afghanistan. Since 2004, Iran's influence has waned somewhat as its allies, mostly Persian-speaking Afghan minority factions still referred to as the "Northern Alliance," have been marginalized in Afghan politics. However, a CRS visit to Afghanistan in March 2006 noted Iranian-funded Shiite theological seminaries being built in Kabul, perhaps an indication of Iran's efforts to support Afghanistan's Shiite minority. Fearing the continuing presence of the 18,000 U.S. troops in Afghanistan, Iran has objected to the U.S. use of Shindand air base in western Afghanistan, asserting that it is being used to conduct surveillance on Iran. U.S. aircraft began using the base in September 2004 after the downfall of the pro-Iranian governor of Herat Province, Ismail Khan.

Iran long opposed the regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed nine Iranian diplomats based in northern Afghanistan, and Iran provided military aid to the Northern Alliance factions. Iran, along with the United States, Russia, and the countries bordering Afghanistan, attended U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the internal conflict in Afghanistan. During the major combat phase of the post-September 11 U.S.-led war in Afghanistan, Iran offered search and rescue of any downed service-persons and the trans-shipment to Afghanistan of humanitarian assistance. In March

³⁸ See CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy*, by Kenneth Katzman.

2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban Afghan faction leader. Iran froze Hikmatyar's assets in Iran (January 2005).

Al Qaeda. Iran is not a natural ally of Al Qaeda, largely because Al Qaeda is an orthodox Sunni Muslim organization. However, U.S. officials have said since January 2002 that it is unclear whether Iran has arrested senior Al Qaeda operatives who are believed to be in Iran.³⁹ These figures are purported to include Al Qaeda spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl, and Osama bin Laden's son, Saad.⁴⁰ A German monthly magazine, *Cicero*, reported in late October 2005 that Iran is allowing 25 high-ranking Al Qaeda activists, including three sons of bin Laden, to stay in homes belonging to the Revolutionary Guard.⁴¹ This report, if true, would contradict Iran's assertion on July 23, 2003 that it had "in custody" senior Al Qaeda figures. U.S. officials blamed the May 12, 2003 bombings in Riyadh, Saudi Arabia against four expatriate housing complexes on these operatives, saying they have been able to contact associates outside Iran.⁴² Possibly in response to the criticism, on July 16, 2005, Iran's Intelligence Minister said that 200 Al Qaeda members are in Iranian jails and that Iran had broken up an Al Qaeda cell planning attacks on Iranian students.⁴³ Hardliners in Iran might want to support or protect Al Qaeda activists as leverage against the United States and its allies, and some reports say Iran might want to exchange them for a U.S. hand-over of People's Mojahedin activists under U.S. control in Iraq. U.S. officials have called on Iran to turn them over to their countries of origin or to third countries for trial.

The 9/11 Commission report said several of the September 11 hijackers and other plotters, possibly with official help, might have transited Iran, but the report does not assert that the Iranian government cooperated with or knew about the plot. Another bin Laden ally, Abu Musab al-Zarqawi, reportedly transited Iran after the September 11 attacks and took root in Iraq, where he is a major insurgent leader.

U.S. Policy Responses and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations, but there have been several periods since 1997 when a significant thaw appeared imminent. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980 and the two countries have had only limited

³⁹ Keto, Alex. "White House Reiterates Iran Is Harboring Al Qaeda." *Dow Jones Newswires*, May 19, 2003.

⁴⁰ Gertz, Bill. "Al Qaeda Terrorists Being Held by Iran." *Washington Times*, July 24, 2003.

⁴¹ "Bin Laden Sons Said to Roam Free." *Washington Times*, Oct. 27, 2005.

⁴² Gertz, Bill. "CIA Points to Continuing Iran Tie to Al Qaeda." *Washington Times*, July 23, 2004.

⁴³ "Tehran Pledges to Crack Down on Militants." *Associated Press*, July 18, 2005.

official contact since.⁴⁴ The United States tilted markedly toward Iraq in the 1980-88 Iran-Iraq war, including U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq,⁴⁵ and during 1987-88, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks.

In his January 1989 inaugural speech, President George H.W. Bush laid the groundwork for a rapprochement, saying that, in relations with Iran, “goodwill begets goodwill,” implying better relations if Iran helped obtain the release of U.S. hostages held by Hizballah in Lebanon. Iran reportedly did assist in obtaining their releases, which was completed in December 1991, but no substantial thaw followed, possibly because Iran continued to back groups opposed to the U.S.-sponsored Middle East peace process. That process was a priority of the George H.W. Bush Administration.

Upon taking office in 1993, the Clinton Administration moved to further isolate Iran as part of a strategy of “dual containment” of Iran and Iraq. In 1995 and 1996, the Clinton Administration and Congress added sanctions on Iran in response to growing concerns about Iran’s weapons of mass destruction, its support for terrorist groups, and its efforts to subvert the Arab-Israeli peace process. (For details on U.S. sanctions against Iran, see below.) The election of Khatemi in May 1997 precipitated a U.S. shift toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to “people-to-people” U.S.-Iran exchanges but ruled out direct talks.

In a June 1998 speech, then Secretary of State Albright stepped up the U.S. outreach effort by calling for mutual confidence building measures that could lead to a “road map” for normalization of relations. Encouraged by the reformist victory in Iran’s March 2000 parliamentary elections, Secretary Albright gave another speech on March 17, 2000, acknowledging past U.S. meddling in Iran, announcing some easing of U.S. sanctions, and promising to work to resolve outstanding claims disputes. In September 2000 U.N. “Millennium Summit” meetings, Albright and President Clinton sent a positive signal to Iran by attending Khatemi’s speeches.

Bush Administration Policy and Options

Until 2005, the Bush Administration continued the main thrust of Clinton Administration efforts to try to limit Iran’s strategic capabilities through international diplomacy and possible international sanctions, but there appears to be a growing U.S. preference for a longer term strategy of regime change. Under Secretary of State Burns characterized current U.S. policy on November 30, 2005, stating that U.S. policy is to “isolate Iran, promote a diplomatic solution to Iran’s nuclear ambitions, expose and oppose the regime’s support for terrorism, and advance the cause of democracy and human rights within Iran itself.”

⁴⁴ An exception was the abortive 1985-1986 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hizballah in Lebanon (the so-called “Iran-Contra Affair”).

⁴⁵ Sciolino, Elaine. *The Outlaw State: Saddam Hussein’s Quest for Power and the Gulf Crisis*. New York: John Wiley and Sons, 1991. p. 168.

Regime Change. Some U.S. officials believe that, whether or not Iran's nuclear program can be curbed through diplomacy or economic sanctions, only an outright change of regime would reduce the threat posed by Iran. Those who advocate this policy believe that the regime — no matter which faction of it is in control — harbors ambitions fundamentally at odds with the United States and its values. There has been some support in the United States for regime change since the 1979 Islamic revolution; the United States provided some funding to anti-regime groups, mainly pro-monarchists, during the 1980s.⁴⁶

The Administration shift began to take shape after the September 11, 2001, attacks and President Bush's description of Iran as part of an "axis of evil" in his January 2002 State of the Union message. On July 12, 2002, President Bush stated his support for Iranians demonstrating for reform and democracy, a message he reiterated on December 20, 2002, when he inaugurated Radio *Farda*. President Bush's second inaugural address (January 20, 2005) and his State of the Union messages of February 2, 2005, and January 31, 2006, suggested a clear preference for a change of regime by stating, for example in the latter speech, that "...our nation hopes one day to be the closest of friends with a free and democratic Iran."

Other indications of a shift toward this option include increased public criticism of the regime's human rights record and the funding of pro-democracy activists in Iran. The lead agency on democracy promotion, the State Department, has used funds provided in recent appropriations to support pro-democracy activists. Those appropriations represent congressional sentiment for efforts to change Iran's regime. The policy is discussed in the State Department report "Supporting Human Rights and Democracy: U.S. Record 2004-2005," released March 28, 2005. Iran asserts that such steps represent a violation of the 1981 "Algiers Accords" that settled the Iran hostage crisis and provide for non-interference in each others' internal affairs. The following has been appropriated.

- The FY2004 foreign operations appropriation (P.L. 108-199) earmarked "notwithstanding any other provision of law" up to \$1.5 million for "making grants to educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran." The State Department Bureau of Democracy and Labor (DRL)⁴⁷ gave \$1 million of those funds to a U.S.-based organization, the Iran Human Rights Documentation Center, to document abuses in Iran, using

⁴⁶ CRS conversations with U.S. officials responsible for Iran policy. 1980-1990. After a period of suspension of such assistance, in 1995, the Clinton Administration accepted a House-Senate conference agreement to include \$18-\$20 million in funding authority for covert operations against Iran in the FY1996 Intelligence Authorization Act (H.R. 1655, P.L. 104-93), according to a *Washington Post* report of Dec. 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime's behavior, rather than its overthrow.

⁴⁷ The State Department has determined that, because Iran is ineligible for U.S. aid, Iran democracy promotion funds cannot be channeled through the Middle East Partnership Initiative, because those are Economic Support Funds, ESF, and cannot be used in Iran.

contacts with Iranians in Iran. The Center is run by persons mostly of Iranian origin and affiliated with Yale University's "Griffin Center for Health and Human Rights." The remaining \$500,000 was distributed through the National Endowment for Democracy (NED).

- The conference report on H.R. 4818 (P.L. 108-447), the FY2005 foreign aid appropriations, provided a further \$3 million for similar efforts. The State Department put out a solicitation for proposals for similar projects to be funded in 2005. The winning grantees were not announced by DRL to protect the identities of the grantees, according to U.S. diplomats. DRL had said that priority areas were political party development, media development, labor rights, civil society promotion, and promotion of respect for human rights. DRL officials said they might fund exile broadcasting, as long as such broadcasting is not affiliated with an Iranian exile political faction.⁴⁸
- The conference report on the FY2006 foreign aid appropriation (P.L. 109-102) appropriates up to \$10 million in democracy promotion funds for use in Iran, according to the explanation of the conference managers (H.Rept. 109-265). The funds would be drawn from a "Democracy Fund" as well as from the Middle East Partnership Initiative (MEPI). The conference report also encourages the State Department to consider funding media initiatives in Iran, presumably broadcasting by Iranian exile groups.
- On February 16, 2006, the Administration requested supplemental FY2006 funds, including \$75 million for democracy promotion in Iran. This planned major funding increase appears to reflect a U.S. belief that nuclear negotiations have not succeeded and that U.S.-led pressure on Iran's regime needs to be increased. According to the request, \$15 million is to be used to support "civic education" in Iran and help organize Iranian labor unions and political organizations (through such U.S. organizations as the International Republican Institute, National Democratic Institute, and National Endowment for Democracy). Another \$5 million would be for sponsoring Iranian student visits to the United States, and an additional \$5 million would be for public diplomacy directed at the Iranian population.
- The major portion of the FY2006 supplemental request (\$50 million) is to be for increased U.S. broadcasting to Iran. The funds would likely be used to enhance the Radio Free Europe/Radio Liberty (RFE/RL)-operated broadcasting services into Iran that began in October 1998.⁴⁹ As of December 2002, the radio service has been called Radio Farda ("Tomorrow" in Farsi), which now broadcasts 24

⁴⁸ Briefing by DRL representatives for congressional staff. May 9, 2005.

⁴⁹ The service began when Congress funded it (\$4 million) in the conference report on H.R. 2267 (H.Rept. 105-405), the FY1998 Commerce/State/ Justice appropriation. It was to be called "Radio Free Iran."

hours per day and costs about \$18 million per year. A U.S.-sponsored television broadcast service to Iran, run by the Voice of America (VOA), began operations on July 3, 2003. In early 2005, the VOA announced it is increasing the duration of the television broadcasts to three hours a day from 30 minutes a day. However, the Administration request states that some of the funding could be for U.S.-based exile-controlled media broadcasting.

- In action on the FY2006 supplemental request, the House-passed appropriations bill (H.R. 4939, passed March 16, 2006) cuts the request by appropriating \$10 million for democracy programs (not \$15 million). The \$5 million each for public diplomacy and student exchanges is provided. The bill also provides \$36.1 million for VOA-TV and Radio Farda broadcasting, including infrastructure for that purpose, through the Broadcasting Board of Governors, an apparent rebuff to the idea of funding Iranian exile broadcasts. The Senate version (S.Rept. 109-230) fully funds the request, but allocates it differently by providing \$34.75 million for democracy promotion (more than requested and far more than the House version) and \$30.25 million for broadcasting (less than requested and less than in the House version).

In March 8, 2006, testimony to the House International Relations Committee, Undersecretary of State Nicholas Burns confirmed press reports that the United States would be augmented by the presence of Persian-speaking U.S. diplomats around Iran, in part to help identify and facilitate Iranian participate in U.S. democracy-promotion programs. An enlarged “Office of Iran Affairs” has been formed at State Department, and the Iran unit at the U.S. consulate in Dubai is being expanded, according to Burns. Other press reports say new Persian-speaking Iran positions will be added at U.S. diplomatic facilities in Baku, Azerbaijan; Istanbul, Turkey; Frankfurt, Germany; and London, all of which have large expatriate Iranian populations.⁵⁰

Many question the prospects of U.S.-led Iran regime change, short of all-out-U.S. military invasion, because of the weakness of opposition groups committed to outright regime overthrow. Providing overt or covert support to anti-regime organizations, in the view of many experts, would not make them materially more viable or attractive to Iranians.

Congress and Regime Change: H.R. 282 and S. 333. Some recent and pending legislation exemplify the preference of some Members for regime change in Iran. In the 109th Congress, H.R. 282, introduced by Representative Ros-Lehtinen, was marked up by the Middle East/Central Asia Subcommittee of the House International Relations Committee on April 13, 2005, and was passed by the full House International Relations Committee on March 15, 2006, by a vote of 37-3. The companion, S. 333, was introduced by Senator Santorum. H.R. 282 has 355 co-

⁵⁰ Stockman, Farah. “Long Struggle” With Iran Seen Ahead.” *Boston Globe*, Mar. 9, 2006.

sponsors and S. 333 has 50 co-sponsors, as of March 31, 2006. The bill passed the full Committee with only minor amendments even though Undersecretary of State Burns testified on March 8 (see above) that the Administration opposes the economic sanctions-related sections of it (Iran-Libya Sanctions Act-related provisions, discussed in CRS Report RS20871, *The Iran-Libya Sanctions Act*, by Kenneth Katzman) as likely to cause tensions with U.S. allies. The Administration supports the democracy-promotion sections of the bills; those sections, which are similar to steps the Administration is taking as demonstrated by the FY2006 supplemental request, contain the following provisions:

- Both recommend the appointment of an Administration policy coordinator on Iran, serving as a special assistant to the President.
- Both specify criteria for designating pro-democracy groups eligible to receive U.S. aid, and H.R. 282 calls for expanded U.S. contacts with groups attempting to promote democracy in Iran. S. 333 authorizes \$10 million in U.S. funding for such groups; H.R. 282 authorizes no specific dollar amount.
- Both call for Iranian government representatives to be denied access to all U.S. government buildings.

Engagement? Before the nuclear issue came to the fore, the Bush Administration pursued direct engagement with Iran; this approach has lost favor, although not receded entirely, as Iran's nuclear stances have hardened. The Administration asserts it tried diplomacy and engagement by backing the European nuclear negotiations with Iran, even if it did not join those talks itself. In May 2003, both countries publicly acknowledged that they were conducting direct talks in Geneva on Afghanistan and Iraq,⁵¹ marking the first confirmed direct dialogue between the two countries since the 1979 revolution. The United States broke off the dialogue following the May 12, 2003 bombing in Riyadh, as discussed above. In December 2003, the United States briefly resumed some contacts with Iran to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, including a reported offer to send a high-level delegation to Iran. However, Iran rebuffed that offer.

Even though it is no longer pursuing a broad dialogue with Iran, the Administration continues to consider limited dialogue with Iran useful in some circumstances. As noted above, both Iran and the United States have agreed to talks on stabilizing Iraq.

Military Action? As concerns over Iran's nuclear program have grown, public discussion of a military option against Iran's nuclear facilities has increased. All-out U.S. military action to remove Iran's regime does not appear to be under serious consideration within the Administration. Most experts believe U.S. forces are spread too thin, including about 133,000 deployed in Iraq, to undertake such action, and that U.S. forces would be greeted with hostility by most Iranians.

⁵¹ Wright, Robin. "U.S. In 'Useful' Talks With Iran." *Los Angeles Times*, May 13, 2003.

Some experts believe that limited military action, such as air or missile strikes against suspected nuclear sites should be considered. However, U.S. allies in Europe, not to mention Russia, China, and others, have expressed strong opposition to military action, at least while diplomatic options remain active. In recent months, President Bush has on several occasions said that “all options are on the table,”⁵² although most U.S. officials have said that diplomacy and sanctions would be pursued before military action would be considered. At a conference in Germany in early February 2006, Senator McCain said that military action would be preferable to a nuclear Iran. A January 2005 *New Yorker* article by Seymour Hersh asserts that President Bush has authorized covert special forces missions into Iran to assess potential nuclear-related targets for a U.S. air strike. The Department of Defense criticized the credibility of the article, but it did not dispute this assertion.

Experts differ on the effectiveness of striking Iran’s nuclear actions. Some argue that doing so could set back Iran’s nuclear program because many of the relevant targets are known and could be struck, even those that are hardened or buried.⁵³ Some advocates say that there are only a limited number of key nuclear sites and that striking them would cripple Iran’s program.

Opponents of a strike question whether the United States is aware of or militarily able to reach all relevant sites and argue that Iran might retaliate through terrorism or other means, such as shutting down its own oil exports. Some believe that a U.S. strike would cause the Iranian public to rally around Iran’s regime, setting back U.S. efforts to promote change within Iran. Still others, such as authors of a recent National Defense University study, believe that a nuclear weapons capability would not embolden Iran’s foreign policy because U.S. conventional capabilities and regional alliances could blunt any Iranian aggressiveness.⁵⁴

Expressing particular fear that Iran might achieve a nuclear weapons capability, some Israeli officials, including Defense Minister Shaul Mofaz (October 2004), have refused to rule out the possibility that Israel might strike Iran’s nuclear infrastructure. However, several experts doubt that Israel has the capabilities, such as sufficient aerial refueling capacity, that could make such action effective. Israeli leaders have said that no such strike is being planned, but a Defense Department decision to sell Israel GBU-28 “bunker buster” munitions has led to speculation that Israel might be contemplating such a strike, and with some degree of U.S. support.⁵⁵

Related options, which might involve U.S. naval forces in the Gulf, would be to institute searches of Iran-bound vessels suspected of containing WMD-related

⁵² Fletcher, Michael and Keith Richburg. “Bush Tries to Allay E.U. Worry Over Iran.” *Washington Post*, Feb. 23, 2005.

⁵³ Sanger, David. “Why Not A Strike On Iran?” *New York Times*, Jan. 22, 2006.

⁵⁴ Yaphe, Judith and Charles Lutes. Reassessing the Implications of a Nuclear Armed Iran. Institute for National Strategic Studies, National Defense University. McNair Paper 69. Aug. 2005.

⁵⁵ Stone, Andrea. “U.S. Plans to Sell 100 Bunker Busting Bombs to Israel.” *USA Today*, Apr. 18, 2005.

technology, or placing nuclear-armed weapons aboard U.S. ships operating in the Gulf as a signal of strength to Iran. The Administration has discussed with its allies some measures that could be used to block North Korea's technology exports and alleged drug smuggling,⁵⁶ an initiative that has won allied support. In contrast, some officials of allied governments, including Britain, have called for greater cooperation with Iran to curb the movement of smugglers and terrorists across the Persian Gulf.⁵⁷

International Sanctions? Regime change and military action appear to be longer term options, but the referral of Iran's nuclear activities to the U.N. Security Council raises the immediate question of whether, and if so what, international sanctions might be imposed on Iran. In order to gain international support to pressure Iran on its nuclear program, the Administration has indicated a willingness to move slowly in asking for imposition of international sanctions. In order to avoid rallying the Iranian people around the regime, the Administration (Secretary of State Rice) has stated, as recently as on March 30, 2006, that it does not support new sanctions that would hurt Iran's people. Iran, for its part, has indirectly threatened to reduce its oil exportation if any international sanctions are imposed on it, although some Iranian officials now downplay that possibility, possibly because Iran's might collapse if it took such a step. A House resolution (H.Con.Res. 341) calling on the international community to impose U.N. economic sanctions on Iran because of its nuclear activity passed the House on February 16, 2006. A Senate version (S.Con.Res. 78) calling for referral of Iran to the U.N. Security Council passed the Senate (unanimous consent) on January 27, 2006. The following represent options that press reports say might be considered by the Security Council; some of them are proposed in a Senate resolution (S.Res. 351) introduced by Senator Evan Bayh on January 20, 2006.

- *Mandating Reductions in Diplomatic Exchanges with Iran or Limiting Travel by Some Iranian Officials.* These restrictions were imposed on the Taliban government of Afghanistan in 1999 in response to its harboring of Al Qaeda leadership. Another possibility is limitations on sports or cultural exchanges with Iran, such as Iran's participation in the World Cup soccer tournament or the Olympics. However, many experts oppose using sporting events to accomplish political goals.
- *Banning International Flights to and from Iran.* This sanction was imposed on Libya in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103.
- *A Ban on Exports to Iran of Refined Oil Products or of Other Products.* However, such sanctions might be opposed by countries that supply such goods and services to Iran. The gas exports ban, a major feature of the Bayh resolution (S.Res. 351), would almost

⁵⁶ Kraley, Thomas. "U.S. Asks Aid Barring Arms From Rogue States." *Washington Times*, June 5, 2003.

⁵⁷ "British Commander Calls for More Cooperation With Iran in Persian Gulf." *BBC*, May 3, 2004.

certainly hurt Iran's economy because Iran lacks refinery capacity to meet demand and must import gasoline. However, some believe Iran might respond by raising domestic gasoline prices (now heavily subsidized) to dampen demand.

- *Financial Sanctions, Such as a Freeze on Iran's Financial Assets Abroad or on the Assets of Designated Iranian Officials, or Limiting Lending to Iran by International Financial Institutions.* Anticipating an asset freeze, Iran announced on January 20, 2006, that it had already begun moving some assets in Europe back to Iran, although Iran later backtracked on that announcement.
- *Imposing a Worldwide Ban on Sales of Arms to Iran.* Such a sanction could incur Security Council opposition from Russia and China, which have been Iran's key arms suppliers in recent years.
- *Imposing an Intrusive U.N.-led Wmd Inspections Regime, Similar to That Imposed on Iraq after its Defeat in the 1991 Persian Gulf War.* The objective of such an inspections program could be to enforce a Security Council decision to halt uranium enrichment, although Iran is likely to resist such a program and reduce its effectiveness.
- *Imposing an International Ban on Purchases of Iranian Oil or Other Trade or a Ban on International Investment in Iran's Energy Sector.* This is widely considered the most sweeping of sanctions likely to be considered in the Security Council. However, the sanction is unlikely to be proposed or adopted because world oil prices have already risen to nearly \$60 per barrel.

U.S. Sanctions

Any international sanctions would add to the wide range of U.S. sanctions in place since the November 4, 1979, seizure of the U.S. hostages in Tehran.⁵⁸ Some experts believe that U.S. sanctions have slowed Iran's economy, forcing it to curb spending on weapons purchases, but others believe that because the sanctions are not multilateral, the U.S. sanctions have had only marginal effect.⁵⁹ Some who take the latter view maintain that Iran's economic performance fluctuates according to the price of oil, and far less so from other factors.

Terrorism/Foreign Aid Sanctions. In January 1984, following the October 1983 bombing of the U.S. Marine barracks in Lebanon (believed perpetrated by Hizballah) Iran was added to the "terrorism list." The list was established by Section 6(j) of the Export Administration Act of 1979, imposing economic sanctions on countries determined to have provided repeated support for acts of international terrorism.

⁵⁸ On Nov. 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.

⁵⁹ "The Fight Over Letting Foreigners Into Iran's Oilfields." *The Economist*, July 14, 2001.

- The terrorism list designation bans direct U.S. financial assistance (Foreign Assistance Act, FAA) and arms sales (Arms Export Control Act), restricts sales of U.S. dual use items (Export Administration Act), and requires the United States to vote to oppose multilateral lending to the designated countries (Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) without providing for a waiver.
- Section 307 of the FAA (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. No waiver is provided for.
- Under the Anti-Terrorism and Effective Death Penalty Act, the President is required to withhold U.S. foreign assistance to any country that provides to a terrorism list country foreign assistance (Section 325) or sells arms to one (Section 326). Waivers are provided for.
- U.S. regulations do not bar disaster relief and the United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another \$350,000 worth of aid to the victims of a June 22, 2002 earthquake. (The World Bank provided some earthquake related lending as well.) The United States provided \$5.7 million in assistance (out of total governmental pledges of about \$32 million, of which \$17 million have been remitted) to the victims of the December 2003 earthquake in Bam, Iran, which killed as many as 40,000 people and destroyed 90% of Bam's buildings. The United States flew in 68,000 kilograms of supplies to Bam, flown in by U.S. military flights, the first U.S. military flights into Iran since the "Iran-Contra Affair" of 1985-1986.

Proliferation Sanctions. Several sanctions laws are unique to Iran. The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran "destabilizing numbers and types of conventional weapons," as well as WMD technology. The Iran Nonproliferation Act (INA, P.L. 106-178) authorizes sanctions on foreign entities that assist Iran's WMD programs.⁶⁰ It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under its control had not transferred any WMD or missile technology to Iran within the year prior. The provision contains certain exceptions to ensure the safety of astronauts and for certain space station hardware. The

⁶⁰ See CRS Report RS22072, *The Iran Nonproliferation Act and the International Space Station: Issues and Options*, by Sharon Squassoni and Marcia S. Smith.

provision could complicate U.S. efforts to keep U.S. astronauts on the station beyond April 2006, when Russia plans to start charging the United States for transporting them on its Soyuz spacecraft. In February 2005, the Bush Administration proposed an amendment to the INA that would allow continued U.S. access to the station. Legislation, S. 1713, took that step; the House version of S. 1713, which extended INA sanctions provisions to Syria, was accepted by the Senate and became P.L. 109-112 on November 22, 2005. A bill to sanction any U.S. dealings with companies identified as violating the INA (S. 2279) was introduced February 14, 2006.

Reflecting a Bush Administration decision to impose sanctions rather than overlook alleged violations or waive sanctions, the Bush Administration has sanctioned numerous entities as discussed below. These entities were sanctioned under the INA, the Iran-Iraq Arms Non-Proliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran:

- In May 2003, the Administration sanctioned a Chinese industrial entity, Norinco, for allegedly Iran selling missile technology.
- On July 4, 2003 an additional Chinese entity, the Taiwan Foreign Trade General Corporation, was sanctioned under the INA.
- On September 17, 2003 the Administration imposed sanctions on a leading Russian arms manufacturer, the Tula Instrument Design Bureau, for allegedly selling laser-guided artillery shells to Iran.
- On April 7, 2004, the Administration announced sanctions on 13 entities under the INA, including companies from Russia, China, Belarus, Macedonia, North Korea, UAE, and Taiwan.
- On September 29, 2004 fourteen entities were sanctioned under the INA from China, North Korea, Belarus, India (two persons, Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.
- In December 2004 and January 2005, INA sanctions were imposed on fourteen more entities, mostly from China, for alleged supplying of Iran's missile program. Many, such as North Korea's Changgwang Sinyong and China's Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Other entities sanctioned included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.
- On December 26, 2005, the Administration sanctioned another nine entities, including those from China (Norinco included yet again), India (two chemical companies), and Austria. At the same time, sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him of helping Iran.

On June 29, 2005, President Bush signed an executive order blocking the U.S.-based assets and property of any individual or entity determined to have contributed to Iran (or other countries') WMD programs. The order also designated several Iranian entities as responsible for WMD and missile programs; it froze their U.S. assets (if any) and prohibited U.S. citizens or companies from engaging in transactions with them.⁶¹ As do previous years' appropriations, the FY2006 foreign aid appropriation (P.L. 109-102) punishes the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran's nuclear and ballistic missiles programs.

On the nuclear issue, Congress has passed legislation supporting strong U.S. steps against countries that help Iran with nuclear technology. In the 109th Congress, a provision of a House-passed U.N. reform bill (H.R. 2745) calls on the United States to vote to ban the provision of peaceful nuclear technology to Iran unless the President certifies Iran is not enriching uranium or committing other NPT violations. A similar provision is contained in the House-passed State Department authorization bill FY2006 and 2007 (H.R. 2601), which would penalize countries that provide nuclear technology to Iran, unless Iran is deemed fully compliant with the NPT.

Counter-Narcotics. In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. The decision exempted Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. According to several governments, over the past few years Iran has augmented security on its border with Afghanistan in part to prevent the flow of narcotics from that country into Iran. Britain has sold Iran some night vision equipment and body armor for the counter-narcotics fight.

Trade Ban. On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran. This followed an earlier March 1995 executive order barring U.S. investment in Iran's energy sector. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, most recently on March 11, 2005, the U.S. Administration has renewed a declaration of a state of emergency that triggered the March 1995 investment ban. An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran. However, some modifications to the trade ban since 1999 account for the small trade that does exist between the United States and Iran. The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply:

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran, and in December 1999, the Clinton

⁶¹ [<http://www.whitehouse.gov/news/releases/2005/06/print/20050629.html>].

Administration allowed the repair of engine mountings on seven Iran Air 747s (Boeing).

- OFAC regulations do not permit U.S. firms to negotiate investment deals with Iran or to trade Iranian oil overseas.
- Since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to OFAC licensing. Private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees are available and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration provided the credit guarantees. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive.
- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that product. In January 2003, the tariff on roasted pistachios was lowered to 22% and on raw pistachios to 163%. In December 2004, U.S. sanctions were further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan).
- Subsidiaries of U.S. firms are not barred from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. Some U.S. companies have come under scrutiny for dealings by their subsidiaries with Iran. On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, Halliburton reportedly is to provide \$30 million to \$35 million worth of services per year through Oriental Kish. This leaves unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran-Libya Sanctions Act (ILSA)⁶² because the dealings apparently involved a subsidiary of Halliburton. Because of criticism, Halliburton announced on January 28, 2005, that it would withdraw all employees from Iran and end its pursuit of future business opportunities there, although it is not clear that Halliburton has

⁶² “Iran Says Halliburton Won Drilling Contract.” *Washington Times*, Jan. 11, 2005.

pulled out of the Oriental Kish deal.⁶³ One week later, GE announced it would seek no new business in Iran. According to press reports, GE has been selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries. The trade ban appears to bar any Iranian company from buying a foreign company that has U.S. units.

- The trade ban permits U.S. companies to apply for licenses to conduct “swaps” of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999.
- On December 20, 2005, it was announced that the Treasury Department had fined Dutch bank ABN Amro \$80 million for failing to fully report the processing of financial transactions involving Iran’s Bank Melli (and another bank partially owned by Libya).

The Iran-Libya Sanctions Act (ILSA) and Regional Oil and Gas Projects. ILSA (P.L. 104-172, August 5, 1996), as amended, sanctions foreign (or U.S.) investment of more than \$20 million in one year in Iran or Libya’s energy sector. It was to sunset on August 5, 2001, but it was renewed for another five years (P.L. 107-24, August 3, 2001). It is now scheduled to expire on August 5, 2006, unless renewed. H.R. 282, passed by the House International Relations Committee on March 15, 2006, and S. 333 have several ILSA-related provisions, including extending it indefinitely; making exports to Iran of WMD or advanced conventional weapons technology sanctionable; and setting a 90-day time limit for the Administration to determine whether a project violates ILSA. H.R. 282 also mandates cuts in U.S. foreign aid to countries whose companies violate ILSA. (See CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*, by Kenneth Katzman.)

Travel-Related Guidance. Use of U.S. passports for travel to Iran is permitted, but a State Department travel warning, softened somewhat in April 1998, asks that Americans “defer” travel to Iran. Iranians entering the United States are required to be fingerprinted, and Iran has imposed reciprocal requirements. In January 2006, Iran requested direct flights between the United States and Iran to accommodate a growing number of Iranian-Americans visiting Iran, but little movement on this is expected because of deep U.S.-Iran strains on nuclear and other issues. Ahmadinejad denied that the request signaled a desire on his part to improve relations with the United States more broadly.

Status of Some U.S.-Iran Assets Disputes. A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the break in relations and freezing of some of Iran’s assets following the Iranian revolution. Major cases yet to be decided center on hundreds of Foreign Military Sales cases between the United

⁶³ Boyd, Roderick. “Halliburton Agrees to Leave Iran, Thompson Says.” *New York Sun*, Mar. 25, 2005.

States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About \$400 million in proceeds from the resale of that equipment was placed in a DOD account, and about \$22 million in Iranian diplomatic property remains blocked. The DOD funds were drawn down to pay judgments against Iran for past acts of terrorism against Americans, filed under the Anti-Terrorism and Effective Death Penalty Act of 1996. Other disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran \$61.8 million in compensation (\$300,000 per wage earning victim, \$150,000 per non wage earner) for the 248 Iranians killed. The United States has not compensated Iran for the airplane itself, to date. As it has in past similar cases, the Administration has opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation. (See CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*, by Jennifer K. Elsea.)

Multilateral Policies Toward Iran

Most U.S. allies see engagement, not sanctions, as the means to change Iran's behavior, although several European governments now appear willing to move toward international sanctions as a response to Iran's nuclear activities. During 1992-1997, the European Union (EU) countries maintained a policy of "critical dialogue" with Iran, asserting that dialogue and commerce with Iran could moderate Iran's behavior. The United States did not oppose those talks but maintained that the EU's dialogue would not change Iranian behavior. The dialogue was suspended following the April 1997 German terrorism trial ("Mykonos trial") that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. After Khatemi became president, the EU-Iran dialogue resumed (May 1998), and he made state visits to most major European countries as well as Japan.

EU-Iran Trade Negotiations. In December 2002, as part of its engagement strategy, the EU (European Commission) first began negotiations with Iran on a "Trade and Cooperation Agreement" (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries. However, revelations about Iran's undeclared nuclear activity caused a suspension of the talks in July 2003. The TCA talks resumed in January 2005 in concert with the "Paris Agreement" (above). Working group discussions focused not only on the TCA terms and proliferation issues but also on Iran's human rights record; Iran's efforts to derail the Middle East peace process; and Iranian-sponsored terrorism. There were also discussions on counter-narcotics, refugees, and migration issues — issues on which Iran's record has sometimes been positive, as well as on the Iranian opposition PMOI. After the eighth round of negotiations on July 12-13, 2005, European Commission negotiators said the talks were making progress, although these talks have been suspended since the August 2005 breakdown of the Paris Agreement.

Multilateral, World Bank, and IMF Lending to Iran. U.S.-allied differences on Iran included European and Japanese creditors' rescheduling of about \$16 billion in Iranian debt during 1994-1995. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling. Iran's improved external debt led most European export credit agencies to restore insurance cover for exports to Iran. In July 2002,

Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks. In May 2002 Moody's stopped its credit ratings service for Iran's government bonds on the grounds that performing this service might violate the U.S. trade ban.

The European countries and Japan outvoted the United States to provide international loans to Iran. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the Bank by the amount of those loans. The legislation contributed to a temporary halt in new Bank lending to Iran, but by 1999, Iran's moderating image had led the World Bank to consider new loans. U.S. policy, as explained on October 29, 2003, a Treasury Department official, Bill Schuerch, in testimony before the House Financial Services Committee, has been to try to block the World Bank loans to Iran, beyond the statutory requirement for the United States to vote "no" on such loans to Iran (and other terrorism list states). However, in May 2000, the United States' allies outvoted the United States to approve \$232 million in loans for health and sewage projects. During April 2003-May 2005, a total of \$725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to a \$400 million in loans for earthquake relief. A provision of the House-passed State Department authorization bill for FY2006 and FY2007 (H.R. 2601) calls on the Administration to lobby other governments to vote against international loans to Iran.

WTO Membership. Iran first attempted to apply to join the WTO in July 1996. On 22 occasions after that, representatives of the Clinton and then the Bush Administration blocked Iran from applying (applications must be by consensus of the 148 members). As discussed above, as part of an effort to assist the EU-3 nuclear talks with Iran, the Administration announced on March 11, 2005, that it would drop opposition to Iran's applying for WTO membership. At a WTO meeting in May 2005, no opposition to Iran's application was registered by any state, and Iran began accession talks. However, movement on the issue is not expected soon because Iran is at odds with the international community on its nuclear program.

Conclusion

Mistrust between the United States and Iran's Islamic regime has run deep for over two decades, even before the emergence of a dispute over Iran's nuclear program. Many experts say that all factions in Iran are united on major national security issues and that U.S.-Iran relations might not improve unless or until the Islamic regime is removed or moderates substantially, even if a nuclear deal is reached and implemented. Others say that, despite Ahmadinejad's presidency, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein. Those who take this view say that Iran is far more secure now that the United States has removed these two regimes, and it might be more willing than

previously to accommodate U.S. interests in the Gulf. Others say that the opposite is more likely, that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran might redouble its efforts to develop WMD and other capabilities to deter the United States.

Appendix: Structure of the Iranian Government

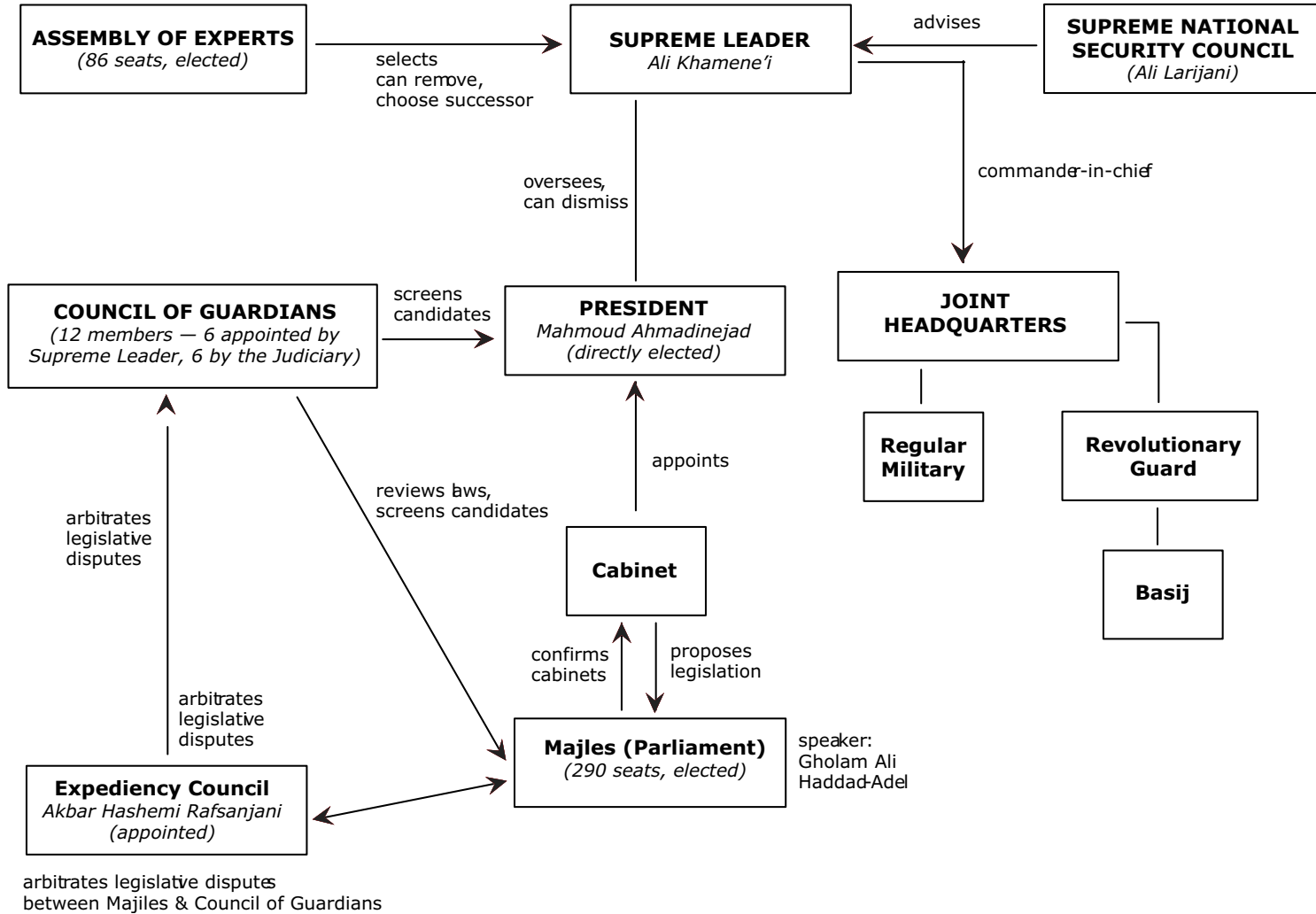


Figure 2. Map of Iran



Source: Map Resources. Adapted by CRS. (K.Yancey 4/12/05)