Iran: U.S. Concerns and Policy Responses

Updated November 29, 2005

Kenneth Katzman
Specialist in Middle Eastern Affairs
Foreign Affairs, Defense, and Trade Division
# Iran: U.S. Concerns and Policy Responses

**Title and Subtitle:**

**Abstract:**

*The original document contains color images.*

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**Number of Pages:**

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Summary

The Bush Administration has pursued several avenues to attempt to contain or end the potential threat posed by Iran, at times pursuing limited engagement directly or through allies, and at other times leaning toward pursuing efforts to change Iran’s regime. A potential international crisis has loomed over Iran’s nuclear program after a U.S.-supported effort by three European nations to limit Iran’s nuclear program broke down in August 2005. International concerns on nuclear issues and other strategic issues have been heightened by the accession of Mahmoud Ahmadinejad, a hardliner, as president of Iran. He consistently advocated a return to many of the original principles of the Islamic revolution as set down by the late Ayatollah Ruhollah Khomeini. Some advocate military action against Iran’s nuclear infrastructure, but others believe that continued diplomacy, combined with offers of economic rewards or threats of punishment, is the only viable option. Still others believe that only an outright replacement of Iran’s regime would diminish the threat posed by Iran to U.S. interests. U.S. sanctions currently in effect ban or strictly limit U.S. trade, aid, and investment in Iran and penalize foreign firms that invest in Iran’s energy sector, but unilateral U.S. sanctions do not appear to have materially slowed Iran’s WMD programs or shaken the regime’s grip on power.

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. Some senior Al Qaeda activists are in Iran as well, although Iran claims they are “in custody.” In addition, U.S. officials 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, although most Iranian-supported factions in Iraq are supportive of the U.S.-led political transition roadmap.

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 does hold elections for many senior positions, including that of president, and some believe that changing Iran’s internal policies is not necessarily central to U.S. interests in Iran.

For further information, see CRS Report RS21592, Iran’s Nuclear Program: Recent Developments, by Sharon Squassoni; CRS Report RS21548, Iran’s Ballistic Missile Capabilities, by Andrew Feickert; CRS Report RS22323, Iran’s Influence in Iraq, by Kenneth Katzman; and CRS Report RS20871, The Iran-Libya Sanctions Act (ILSA), by Kenneth Katzman. This report will be updated as warranted by developments.
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Much of the debate over U.S. policy toward Iran has centered on the nature of the current regime. Some experts believe that Iran 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 settled in 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 jurisprudent). 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. 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). Khamene’i had served two terms as elected president (1981-1989), but he has lacked the unquestioned spiritual and 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. This body reviews legislation to ensure it conforms to Islamic law, and it screens election candidates. His position has been enhanced by the election as president on June 24, 2005 (second round of voting) of Mahmoud Ahmadinejad, a hardliner. Another unelected body dominated by conservatives is the Expediency Council, set up in 1988 to resolve legislative disagreements between the Majles (parliament) and the Council of Guardians.

Former President Mohammad Khatemi, Reformists, and Reformist Candidates. 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. He derived key political support from reformist-oriented students, youths, and women, who have been increasingly defiant of the hardliners in their dress and other activities, although observers say there are not overt signs of political rebellion. Despite his popularity, Khatemi was always subordinate to the Supreme Leader.

Khatemi’s supporters held about 70% of the 290 seats in the 2000-2004 Majles after their victory in the February 18, 2000 elections. However, pro-reform elements became disillusioned with Khatemi for his refusal to confront the hardliners. Dissatisfaction with the lack of major reform erupted in major student demonstrations in July 1999 in which four students were killed by regime security forces. 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 demonstrators, although then Secretary of State Powell said the protests represented a “family fight” within Iran.

With Khatemi constitutionally ineligible to run again in the June 2005 presidential election, reformist organizations (formal “parties” have not been approved) tried to elect a reformist in the June 2005 elections. For the first round

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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).
of the presidential elections on June 17, many reformists had pinned their hopes on former science minister Mostafa Moin. He was initially disqualified for the vote by the Council of Guardians, but his candidacy was reinstated on review. He finished fifth, disappointing reformists who thought he would at least make it to the runoff.

Major reformist organizations include the following:

- 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. Originally enthusiastic about Khatemi, it became critical of him 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. Now headed by Khatemi following his departure from the presidency, it is a longtime moderate clerical grouping. 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.

The Conservatives, Rafsanjani, and Conservative Candidates. Iran’s conservatives generally want only gradual reform but, more importantly in the view of most experts, they want to keep major governing and economic institutions under the control of members of their faction. The conservatives, supported by Khamene’i, have been gaining strength since the February 28, 2003, municipal elections, when reformists failed to turn out in large numbers and hardliners won most of the seats. They gained additional strength from the February 20, 2004 Majles elections. In that election, 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 new Majles speaker chosen was Gholem Ali Haded-Adel. The United States, most European Union countries, and other governments criticized this election as unfair; on February 24, 2004, President Bush said in a White House statement “I join many in Iran and around the world in condemning the Iranian regime’s efforts to stifle freedom of speech.” Just before the elections, on February 12, 2004, the Senate passed by unanimous consent S.Res. 304, expressing the sense of the Senate that the United States should not support the elections and should advocate “democratic government” in Iran.

The June 2005 Elections/Mahmoud Ahmadinejad. On the tide of these conservative victories, the chairman of the Expediency Council, former two-term president (1989-1997) Akbar Hashemi-Rafsanjani, regained political prominence. He has been the patron of many Majles conservatives, although he ran for president again in the June 2005 elections on a pro-business, 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 Islamic Revolutionary Guard Corps (IRGC, see below). 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 registered for the election. (In the 2001 presidential election, the Council permitted to run only 10 out of the 814 registered candidates.) However, 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.”

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:

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<th>Candidate</th>
<th>Percentage</th>
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<tr>
<td>Rafsanjani:</td>
<td>21%</td>
</tr>
<tr>
<td>Ahmadinejad:</td>
<td>19.5%</td>
</tr>
<tr>
<td>Karrubi:</td>
<td>17%</td>
</tr>
<tr>
<td>Qalibaf:</td>
<td>13.8%</td>
</tr>
<tr>
<td>Moin:</td>
<td>13.77%</td>
</tr>
<tr>
<td>Larijani:</td>
<td>5.9%</td>
</tr>
<tr>
<td>Mehralizadeh:</td>
<td>4.38%</td>
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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.

The run-off was conducted on June 24, 2005. With his momentum from the first round, Ahmadinejad won a landslide victory, 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. His victory was confirmed by the Supreme Leader on August 3, 2005, and he took office on August 6.

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...

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in the Revolutionary Guard, the Basij, or the Tehran mayoralty. However, the Majles rejected four of his appointments, mostly on the grounds of insufficient experience. As of November 25, all three of his oil-minister nominees have been rejected by the Majles. Ahmadinejad 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 issues. He has named a woman as one of his vice presidents, in keeping with a practice begun by Khatemi. In keeping with his skepticism of relations with the United States, he has made no significant overtures to the United States, but instead he inflamed world opinion on October 26, 2005, by stating 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 — which caused U.N. Secretary General Kofi Annan to delete Iran from his Middle East trip itinerary in November — was emblematic of a perceived lack of foreign policy experience that apparently prompted the Supreme Leader, earlier in October, 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. The dissension within the conservative camp also prompted speculation that the Supreme Leader might remove Ahmadinejad (which the leader has the power to do under the constitution); Khamene’i moved to quell that discussion with a statement of support for the new president in early November.

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. The Administration granted Ahmadinejad a visa to attend U.N. General Assembly meetings in September 2005.

**Economic Factors Assisting Stability.** The regime has been helped in recent years by high oil prices, which are now near $60 per barrel. The pricing is powering Iran’s economy to a growth rate of about 5% per year. Iran’s per capita income is estimated to exceed $2,000 per year, up from about $1,700 in 2002. Iran produces about 4 million barrels of oil per day (mbd) and exports about 2.6 mbd. Oil revenues account for about 20% of Iran’s gross domestic product (GDP). The revenue has helped Iran build foreign exchange reserves of about $25 billion. Iran has worked its external debt down from $32 billion in 1997 to below $12 billion as of March 2005. On the other hand, 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.

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Prominent Dissidents. Several dissidents are outside the political structure, seeking more sweeping 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 Abdal-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). Some groups in exile seek the outright replacement of the current regime with one that is nationalist, secular, or left-wing. One such group, which is left-leaning, is the People’s Mojahedin Organization of Iran (PMOI). 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 PMOI, formed in the 1960s to try to overthrow the Shah of Iran, advocated 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 was later excluded from power and forced into exile. The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997 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.

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.

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

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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).

regime.\(^8\) Then National Security Adviser Condoleezza Rice stated in November 2003 that the United States is unambiguously treating the group as a terrorist organization. However, the debate over the group was renewed with the U.S. decision in late July 2004 to grant the Ashraf detainees “protected persons” status under the 4\(^{th}\) Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. Iran said in July 2005 that about 700 members of the group had returned to Iran in recent months, presumably after recanting their membership. Two group members were abducted in Baghdad in August 2005, allegedly by pro-Iranian Iraqi militia members. In other action against the group, on June 17, 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 subsequently released and remains in France.\(^9\)

**Pro-Shah Activists/Exile Broadcasts.** Some Iranian exiles, as well as some in Iran, want to replace the regime with a constitutional monarchy presumably led by the U.S.-based son of the late former Shah. On January 24, 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 opposition to the current regime as well as the institution of a constitutional monarchy and genuine democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California, and press reports say a growing number of Iranians inside Iran are listening to his broadcasts, although he is not believed to have a large following there.\(^10\) Numerous other Iranian exile broadcasts, some not linked to the Shah’s son, 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 the appropriators that such financial support be considered by the Administration.)

**Human Rights and Religious Freedom**

The State Department’s human rights report for 2004, released February 28, 2005, 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, and arbitrary arrest and detention. 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, and no significant improvement in Iran’s practices on this issue was noted in the International Religious Freedom report for 2005. No sanctions

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\(^11\) For text of the 2004 report on Iran, see [http://www.state.gov/g/drl/rls/hrrpt/2004/41721.htm](http://www.state.gov/g/drl/rls/hrrpt/2004/41721.htm).
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 hundreds of pro-reform websites.

- 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. In April 2005, Iran rebuffed a Canadian attempt to conduct a formal autopsy of Kazemi, although an Iranian court ordered a review in November 2005.

- On May 13, 2005, Iran freed a prominent dissident, Abbas Abdi, who was jailed for the past two years for conducting an opinion poll on Iranians’ attitudes toward relations with the United States.

- Imprisoned journalist Akbar Ganji conducted a hunger strike (June 10-August 17) to protest regime oppression. The Bush Administration issued a statement calling for his release on July 12, 2005. In 2001, he was sentenced 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 expresses 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, on June 13, 2005, about 250 women staged the first women’s rights demonstration since the 1979 Islamic revolution, protesting obligatory veiling, the denial of their candidacies in the June 2005 presidential elections, and related practices. On the other hand, women can vote and run in lower level elections, including the Majles, they 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. Two Baha’is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). 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. 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.

U.S. officials have not generally considered Iran’s human rights record as a strategic threat to U.S. interests, but the Administration has strongly criticized 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. 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. 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. 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 that Iran had recently acquired some new capability (indigenously produced anti-ship missiles, and North Korean-supplied torpedo and missile boats) to block the Strait of Hormuz at the entrance to the Persian Gulf briefly, or to threaten the flow of oil through that waterway. Coastal cruise missiles (Chinese-supplied Silkworms) could be used to threaten Gulf state oil export terminals across the Gulf. Russia reportedly is in talks to upgrade Iran’s three Kilo-class submarines with “Club-S” (120 mile range) anti-ship missiles, which would presumably enhance Iran’s conventional naval capabilities. In addition, the Revolutionary Guard controls Iran’s 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.

Iran’s conventional capabilities have concerned successive U.S. Administrations far less than have Iran’s attempts to acquire WMD. Partly because of recent 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. 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 region. 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 to date that Iran has taken any steps in that direction. Iran’s programs continue to be assisted primarily by entities in Russia, China, and North Korea.

Nuclear Program

Some observers believe that a long-anticipated crisis between Iran and the international community over Iran’s perceived nuclear ambitions has arrived, although efforts are underway to defuse it. The Bush Administration has publicly supported an effort since 2003 by France, Britain, and Germany (the “EU-3”) to negotiate curbs on Iran’s program, although the Administration has been consistently uncertain about the prospects for success. The Administration and the U.S. intelligence community 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

12 Jacoby testimony before the Senate Intelligence Committee. February 16, 2005.
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 - December 31, 2003, says the “United States remains convinced that Tehran has been pursuing a clandestine nuclear weapons program...”
gas reserves, and that it has not upheld its obligations under the 1968 Nuclear Non-Proliferation Treaty (NPT). 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. At the same time, the President has indicated that the United States would accept a purely civilian Iranian nuclear program. In reference to Iran, he said on September 13, 2005 that “…it’s a right of a government to want to have a civilian nuclear program.”

Iranian leaders, including Ahmadinejad, insist that Iran’s nuclear program is for peaceful purposes only because Iran’s population is growing, and it cannot count on hydrocarbon 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, because it does not want other nations or organizations to control Iran’s nuclear fuel supply. The IAEA has not concluded Iran is trying to develop a nuclear weapon.

If one assumes that Iran is attempting to achieve a nuclear weapons capability, there is disagreement over the urgency of the issue. A study released September 6, 2005, by the London-based International Institute for Strategic Studies says that Iran is at least five years away from producing sufficient material for a single nuclear weapon. 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 nuclear weapons ranges from 6-10 years from then.

The sense of potential crisis began in late 2002, when Iran confirmed PMOI allegations that it was building two additional facilities that could be used to produce fissile material that could be used 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. During most of 2003, Iran refused to sign the “Additional Protocol” to the NPT, which would allow for enhanced inspections, although it did modify its Safeguards agreement to provide advanced notice of new nuclear facilities construction. 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. In March 2005, Pakistani officials said that Khan had provided unauthorized assistance, including centrifuges that could be used to enrich uranium, to Iran during

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16 Question taken at joint appearance with Iraqi President Jalal Talabani. September 13, 2005.


the 1980s. In February 2004, Khan publicly admitted selling nuclear technology to Iran, Libya, and North Korea.

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. Russia is to begin delivering fuel to it by fall of 2005, and the power plant is expected to become operational in late 2006. There are concerns that the plant could give Iran additional technologies for a weapons program (plutonium, for example), but the Russia-Iran reprocessing deal adds safeguards that could slow a weapons program. Iran wants to build 20 more nuclear power plants, including possibly six by Russia.

**European Diplomatic Efforts/Agreement One.** Believing that it is preferable to keep Iran in the NPT and in negotiations, formal diplomatic efforts on Iran’s program began in 2003, led by Germany, France, and Britain (the “EU-3”). On October 21, 2003, the EU-3 and Iran issued a joint statement in which Iran pledged, in return for promises of future exports of peaceful nuclear technology, to fully disclose all aspects of its past nuclear activities, to sign and ratify the Additional Protocol, and 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, which stated that Iran had violated its NPT reporting obligations over an 18-year period; that traces of both highly enriched and low-enriched uranium had been found at two sites in Iran; and that the Iranian military had been involved in manufacturing centrifuge equipment. In July 2004, Iran broke the IAEA’s seals on some of its nuclear centrifuges, scuttling the deal. Subsequently, the IAEA said in September 2004 that Iran was preparing to convert 37 tons of uranium (“yellowcake”) into uranium tetraflouride gas as a step toward making enriched uranium. In May 2005, Iran confirmed that it had done that conversion.

**November 14, 2004 “Paris Agreement.”** In the face of the U.S. threat to push for a Security Council referral, the EU-3 held out to Iran a possible “grand bargain”: Iran would forgo uranium enrichment in exchange for broad diplomatic engagement (resumed talks on an Iran-EU trade agreement, support for Iran’s entry into the World Trade Organization, and counter-narcotics assistance) and assistance

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22 Nuclear experts say that could, in theory, be sufficient to yield as many as five nuclear bombs.

23 For text of the agreement, see [http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran14112004.shtml].

The EU-3 conditioned the talks on Iran’s suspension of all uranium enrichment activity. On November 14, 2004, Iran appeared to meet European demands by agreeing to a verifiable suspension (as of November 22), of uranium enrichment, to remain in place until a permanent agreement is reached. An IAEA board resolution (November 29, 2004) recognized this “Paris Agreement.”

EU-3 - Iran negotiations on a permanent nuclear agreement began on December 13, 2004, with related EU-Iran talks on a trade and cooperation accord beginning 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) and facilitating sales of U.S. civilian aircraft parts to Iran. The Administration decided not to actually join the talks. It did drop its opposition to Iran’s WTO application in late May 2005.

There were some accusations that Iran was not complying with all the terms of the Paris Agreement, even before the agreement’s breakdown in August 2005. According to the IAEA, Iran limited the IAEA to one visit (January 2005) to two military sites, including the large Parchin complex, where suspected nuclear activities might be taking place. On June 15, 2005, IAEA deputy chief Pierre Goldschmidt said that Iran had admitted to experimenting with producing plutonium in 1998, five years later than Iran had previously acknowledged, constituting an additional breach of Iran’s NPT obligations.

Deterioration of the Paris Agreement. As Iran approached its presidential election, the talks on a permanent nuclear agreement began to break down. In May 2005, the EU-3 had promised to present Iran, by early August 2005, a roadmap to achieve the permanent agreement under discussion. After Ahmadinejad’s election, Iranian negotiators said Iran would resume uranium conversion at Esfahan if the EU-3 proposal did not allow Iran to retain a research uranium enrichment capability (3,000 centrifuges). The EU-3 presented its plan to Iran on August 5, reportedly offering Iran assistance with peaceful uses of nuclear energy (medicine, agriculture, and other civilian uses) and provided limited security guarantees (although without offering security guarantees for Iran from the United States). The proposal required Iran to end efforts to produce nuclear fuel (including enrichment of uranium), dismantle its heavy water reactor at Arak, agree to no-notice nuclear inspections, and agree not to leave the NPT (which has a legal exit clause).

Iran immediately rejected the EU-3 offer on the grounds that it forbade uranium enrichment. On August 8, Iran broke the IAEA seals on its uranium conversion facility at Esfahan and began the conversion process. The IAEA convened a special meeting on August 11, 2005, adopting a resolution expressing “serious concern” at Iran’s re-start of uranium conversion — a violation of the Paris Agreement provision that Iran suspend enrichment-related activities until a final nuclear agreement is
reached. The resolution also urged Iran to re-establish full suspension of enrichment-related activities and requested IAEA Director General Baradei to report back to the IAEA board by September 3. In the interim, the EU-3 cancelled a planned meeting with Iran set for August 31.

After the Paris Agreement unraveled, the Bush Administration accelerated diplomacy in advance of the September 19 IAEA meeting. U.S. officials wanted that meeting to produce a decision of the IAEA board (which usually operates by consensus) to immediately refer Iran’s violations to the U.N. Security Council. To achieve that result, U.S. officials presented IAEA board member states with unclassified assessments of Iran’s reported violations, although the presentation reportedly was not an intelligence community product. On September 24, 2005, the United States and the European Union achieved a majority vote of the 35-member IAEA board 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 and implement cooperation with the IAEA. Some attributed the vote to Ahmadinejad’s September 17 speech at the U.N. General Assembly that indirectly threatened to undertake a nuclear weapons program and offered no new proposals to resolve the impasse with the EU-3 and the IAEA. However, the IAEA resolution did not set a time frame for the referral. Iran strongly criticized the September vote but did not immediately implement threats to resume uranium enrichment. Iran did threaten to possibly limit its relations with countries that had voted in favor of the resolution, and it did begin limiting imports from Britain and South Korea, both of which voted for the IAEA resolution.

The United States at first geared up to try to achieve Security Council referral at the November 24, 2005, IAEA meeting. Iran, in turn, tried to head off an adverse vote by allowing new IAEA inspections of the 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 the uranium conversion begun in August, although the Isfahan facility is under IAEA inspection. Apparently short of support to refer Iran to the Security Council, the Administration backed 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. However, Iran did not accept the proposal, instead asserting its right to perform enrichment in Iran, not outside. The Iranian Majles voted to block any further IAEA inspections if Iran were referred to the Security Council. With the acquiescence of the Administration, the EU-3 decided not to press for Security Council referral at the November 24, 2005, meeting, and the meeting adjourned with urgings of Iran to cooperate and to allow additional diplomacy on the Russian proposal. On November 27, 2005, the EU-3 said they


26 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.
wanted to resume negotiations with Iran, apparently dropping a previous demand that Iran would suspend uranium conversion in advance of a resumption. Talks might begin as early as December 6, according to press reports.

**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 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.” 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.** Largely with foreign help, Iran is becoming self-sufficient in the production of ballistic missiles.

- **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.

- **Warhead.** 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

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plans to construct a nuclear warhead for the Shahab.\textsuperscript{29} Iran denied work on such a warhead, but the IAEA is seeking additional information from Iran on the material.

- **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. 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.\textsuperscript{30}

- **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,\textsuperscript{31} 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.\textsuperscript{32} 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. Over the past decade, Iran has tried to establish relatively normal relations with most of its neighbors, but it has not ended all efforts to actively influence internal events in neighboring and nearby states by promoting minority or anti-government factions. 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

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\textsuperscript{31} “Greater U.S. Concern About Iran Missile Capability.” *Reuters,* March 11, 2002.

Middle East peace process. The State Department report on 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.33

**Persian Gulf States.**34 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 to confront Iran. By the mid-1990s, Iran began to shift away from confrontation by ending support for Gulf Shiite dissident movements there, a trend that accelerated after the election of Khatemi. Some believe it possible 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.

- **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. (Supreme Leader Khamene’i has been invited to as well but has not done so.) 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.35 However, relations began deteriorating again when Iran’s new foreign minister, Manuchehr Mottaki, cancelled a visit to Saudi Arabia (as part of a broader Gulf tour) after Saudi Arabia accused Iran of promoting Shiite political domination of Iraq.

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35 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.
• In April 1992, Iran expelled UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a 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). The North field exports natural gas; Iran is developing its side of the field as well. 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 remain wary 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. Iran publicly opposed the major U.S. military offensive against Iraq, but many observers believe Iran wanted Saddam Hussein (a Sunni Muslim who launched war against Iran in September 1980) removed, and the way cleared for the ascendancy of Iraq’s Shiites to power in Iraq. The main thrust of Iran’s strategy in Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure Shiite dominance of post-Saddam Iraq. Although Iran’s primary strategy of supporting mainstream Shiite Islamist factions does not necessarily conflict with U.S. policy in Iraq, U.S. officials believe Iran might be supporting anti-U.S. factions to broaden Iran’s options inside Iraq. In August 2005, Secretary of Defense Rumsfeld confirmed press reports that U.S. forces had found some Iranian-supplied explosives (reportedly including highly lethal shaped explosives) in Iraq. Similar assertions were made by British officials,

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including Prime Minister Blair, following a spate of roadside bombings in and around Basra that killed eight British soldiers during August - October. It is not known whether the weapons shipments had formal Iranian government approval, or even which Iraqi faction(s) the bombs were intended for. Since 2003, there has been frequent speculation that Iran is giving some backing to Shiite cleric Moqtada al-Sadr, whose “Mahdi Army” militia staged two major uprisings against U.S. and Iraqi forces (April and August 2004). In an effort to limit such Iranian activity, in November 2005 U.S. Ambassador to Iraq Zalmay Khalilzad told journalists he had received approval from President Bush to begin a diplomatic dialogue with Iranian officials on the issue of Iraq stability.

Some commentators say Iran will not exercise substantial influence in Iraq over the long term. Iraq’s draft constitution, written mostly by Shiites and Kurds, does not establish an Iranian-style theocratic government. Experts note that most Iraqi Shiites generally stayed loyal to the Iraqi regime during the 1980-1988 Iran-Iraq war, which took nearly 1 million Iranian lives and about half that many Iraqi battlefield deaths. Although exchanges of prisoners and remains from the Iran-Iraq war are mostly completed, Iran has not returned the 125 military and civilian aircraft flown to Iran at the start of the 1991 Gulf war. Territorial issues are mostly resolved as a result of an October 2000 agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords. (Iraq abrogated that agreement prior to its September 1980 invasion of Iran.) During the 1990s, Iran’s naval forces did sometimes cooperate with Saddam Hussein’s illicit export of oil through the Gulf, in exchange for substantial “protection fees.”

**Supporting Anti-Peace Process Groups.** 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, Hizballah and PIJ are closest politically to Iran. The most recent State Department report adds the Al Aqsa Martyr’s Brigades, a non-Islamist Palestinian group, to those that are assisted by Iran. In January 2002, according to U.S. and Israeli officials, Iran made a shipment, intercepted by Israel, of 50 tons of arms bought by the Palestinian Authority (PA). This action surprised observers because Iran has traditionally had few ties to the non-Islamist Palestinian organizations. State Department terrorism reports since 2002 have said that Iran, possibly via Hizballah, has been encouraging coordination among Palestinian terrorist groups, particularly Hamas and PIJ, since the September 2000 Palestinian uprising.

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). Khamene’i has occasionally called Israel a “cancerous tumor” and made other statements suggesting that he seeks Israel’s destruction. Ahmadinejad’s October 26,

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2005, comments that Israel “should be wiped from the map” were made to a hardline conference in Tehran entitled “The World Without Zionism.”

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 repeatedly stated that Iran’s official position is that it 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. Although it is emerging as a major political force in Lebanon, 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. 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. 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. In the Lebanese parliamentary elections of May – June 2005, Hizballah expanded its presence in the Lebanese parliament; it and its ally, the Shiite movement Amal, now hold 35 total seats in the 128-seat parliament. Of these, 14 seats are Hizballah members themselves. On the strength of this showing, one Hizballah member has been given a cabinet seat (Mohammad Fneish, Minister of Energy and Water Resources) in the Lebanese government, positioning Hizballah to exert greater

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38 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 March 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 March 17, 1992, bombing of Israel’s embassy in that city.


40 “Israel’s Peres Says Iran Arming Hizbollah.” *Reuters*, February 4, 2002.
influence on Lebanese government decisions and to resist disarmament. 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, Assistant Secretary of State for the Near East David Welch testified before the House International Relations Committee on July 28, 2005, that the United States continues to refuse to meet with Hizballah members, even those that are in Lebanon’s political institutions. Welch added that Iranian forces continue to train Hizballah militiamen.

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 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 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. Iran-Azerbaijan tensions eased somewhat in conjunction with the mid-May 2002 visit by Azerbaijan’s then President Heydar Aliyev, but there was little evident progress on a bilateral division of their portions of the Caspian. Strains might increase now that the Baku-Tbliisi-Ceyhan oil pipeline, intended to reduce Western dependence on Iranian oil, is beginning its operations.

**Afghanistan.** Since the fall of the Taliban, an adversary of Tehran, Iran has since 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, and U.S. officials have not recently criticized Iran for interfering in Afghanistan. On the other hand, fearing the continuing presence of the 18,000 U.S. troops in Afghanistan, Iran has expressed major objections 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

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pro-Iranian Afghan governor of Herat Province, Ismail Khan, who controlled the base.

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 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 on the grounds that 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. These figures are purported to include Al Qaeda spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl, and Osama bin Laden’s son, Saad. 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. 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. Possibly in response to the criticism, on July 16, 2005, Iran’s Intelligence Minister said that 200 (presumably lower ranking) Al Qaeda members are in Iranian jails, and he said Iran had broken up an Al Qaeda cell planning attacks on Iranian students. 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 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.

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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 had only limited official contact since.47 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,48 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 Hizballah and other groups opposed to the U.S.-sponsored Middle East peace process. That process was a top Administration priority following the October 1991 “Madrid Conference” that brought together leaders from Israel, Syria, Lebanon, Jordan, and the Palestinian community.

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 an easing

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47 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”).

of sanctions on some Iranian imports, and promising to work to resolve outstanding claims disputes. Iran called the steps insufficient to warrant direct dialogue. In September 2000 “Millennium Summit” meetings at the United Nations, Albright and President Clinton sent a positive signal to Iran by attending Khatemi’s speeches.

**Bush Administration Policy and Options**

In his January 2002 State of the Union message, President Bush named Iran as part of an “axis of evil,” even though there was no evidence Iran was involved in the September 11, 2001 attacks. To date, the Bush Administration has continued the main thrust of Clinton Administration efforts to try to limit Iran’s strategic capabilities through economic sanctions and diplomacy, although the nuclear issue has stimulated an apparent preference for a strategy of regime change in President Bush’s second term. However, press reports indicate that there still has been no agreement within the Administration on a presidential directive that would set a firm policy course on Iran, and several options are said to still be under consideration.

**Regime Change.** Some U.S. officials believe that only an outright change of regime would reduce substantially the perceived threat posed by Iran, because the current regime harbors ambitions fundamentally at odds with the United States and its values. Many question the prospects of success for this option, short of all-out-U.S. military invasion because of the weakness of opposition groups committed to outright overthrow of the regime. 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. 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.  

The Bush Administration has shown increasing attraction to the regime change option since the September 11, 2001 attacks. On July 12, 2002, President Bush issued a statement supporting those Iranians demonstrating for reform and democracy, a message he reiterated on December 20, 2002, when he inaugurated Radio Farda. The statements appeared to signal a shift in U.S. policy from attempting to engage Khatemi’s government to publicly supporting Iranian reformers and activists. On the other hand, as a sign of continued Administration hesitation on this option, on October 28, 2003, then Deputy Secretary of State Armitage testified before the Senate Foreign Relations Committee that the United States “does not have a regime change policy toward Iran.”

President Bush’s second inaugural address (January 20, 2005) and his State of the Union message of February 2, 2005, suggested that the Administration, in its

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49 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 December 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime’s behavior, rather than its overthrow.
second term, would take further steps toward this option. In the State of the Union message, he said “And to the Iranian people, I say tonight: as you stand for your own liberty, America stands with you.” On May 19, 2005, Undersecretary of State for Political Affairs Nicholas Burns testified before the Senate Foreign Relations Committee that “The United States believes the future of Iran should be democratic and pluralistic. We support those who wish to see Iran transformed from a rigid, intolerant theocracy to a modern state ...” On July 1, 2005, Secretary of State Rice said “The Iranian government should pay more attention to the democratic aspirations of the Iranian people ... [Iran’s leaders] must know that the energy of reform that is building all around them will one day inspire Iran’s citizens to demand their liberty and their rights.”

Some steps toward pursuing this option have been taken, including increased public criticism of the regime’s human rights record, and funding 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, at the very least, promote openings in Iran’s regime if not oust it outright. 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. However, these programs stop well short of an all-out “regime change” effort. 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)50 gave $1 million of those funds to a U.S.-based organization, the Iran Human Rights Documentation Center, to document abuses in Iran, using 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 democracy promotion efforts in Iran using FY2005 funds. The State Department put out a solicitation for proposals for similar projects to be funded in 2005. The solicitation closed on May 18, but the winning grantees have not yet been announced by DRL, nor have the funds yet been disbursed, according to a USA Today report of

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50 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.
October 23, 2005. 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.\footnote{Briefing by DRL representatives for congressional staff. May 9, 2005.}

- The conference report on the FY2006 foreign aid appropriation (H.R. 3057, P.L. 109-102), appropriates up to $10 million in democracy promotion funds for use in Iran. 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.

Some of the recent efforts build on earlier initiatives by the Clinton Administration which, to some degree prompted by Congress, began a program of promoting U.S. values in Iran through broadcasting. Radio Free Europe/Radio Liberty (RFE/RL) has operated a radio service, in Farsi, to Iran since October 1998, broadcasting from Prague.\footnote{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.”} As of December 2002, it has been called Radio Farda (“Tomorrow” in Farsi), which now broadcasts 24 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.

**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 108th Congress, several bills (S. 1082, H.R. 2466, H.R. 5193) called for a U.S. policy to promote freedom and democracy in Iran, language widely interpreted by experts as regime change. In the 109th Congress, a provision of H.R. 2601, the State Department authorization bill passed by the House, states that it is the policy of the United States to support full democracy in Iran and the right of Iranian citizens to choose their government.

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. The companion, S. 333, was introduced by Senator Santorum. H.R. 282 has 331 co-sponsors as of November 28, and S. 333 has 30 co-sponsors. The Administration has opposed the sanctions-related sections of both bills as potentially complicating the EU nuclear diplomacy with Iran. They provide for the following.

- Both bills contain provisions increasing U.S. sanctions contained in the Iran-Libya Sanctions Act (ILSA), as discussed below and in CRS
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. S. 333 authorizes $10 million in U.S. funding for such groups; H.R. 282 authorizes no specific dollar amount.

H.R. 282, as marked up by the House subcommittee, requires the Administration to work to secure a Security Council resolution requiring Iran to accept intrusive IAEA nuclear inspections.

Both call for Iranian government representatives to be denied access to all U.S. government buildings.

H.R. 282 calls for expanded U.S. contacts with groups attempting to promote democracy in Iran.

Engagement? The Bush Administration has pursued engagement with Iran at times, although the Administration currently appears skeptical of the likely yield of any broad dialogue with Iran. Some U.S. officials and former officials believe that a policy of engagement would be more successful in curbing Iran’s nuclear program and support for terrorist groups. Two late 2004 research institute reports, one by the Council on Foreign Relations and one by the Atlantic Council, recommended further pursuit of an engagement strategy with Iran, arguing that engagement could help promote regional stability and progress on issues in which there is U.S.-Iran agreement. In October 2005, the State Department denied that a reported study circulating within the Department recommending talks with Iran was emerging as a favored option.

On the other hand, the Administration has found limited dialogue with Iran useful in some circumstances. In May 2003, both countries publicly acknowledged that they were conducting direct talks in Geneva on Afghanistan and Iraq, 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, headed by Senator Elizabeth Dole and a Bush family member (see further below). However, Iran rebuffed that offer. On October 19, 2005, Secretary of State Rice responded to questions from the Senate Foreign Relations Committee about Iranian influence in Iraq and said that “[U.S. Ambassador to Iraq Zalmay]

53 For text of the Council on Foreign Relations study, see [http://www.cfr.org/content/publications/attachments/Iran_TF.pdf].

Khalilzad has some flexibility, as he did in Afghanistan, to engage, through multilateral processes, his Iranian counterpart [to discuss Iraq issues].” As noted above, Khalilzad told journalists in late November 2005 that he has received approval from President Bush to engage Iranian diplomats on Iraq.

**Military Action?** As concerns over Iran’s nuclear program have grown, public discussion of a military option (conducted either by the United States or another country, such as Israel) against Iran’s nuclear facilities has increased. There is also discussion of how the United States might respond if Iran lashes out militarily in response to any international punishment for its nuclear activities. A provision of the House-passed H.R. 1815, the FY2006 defense authorization bill, requires a Defense Department report to Congress on how the United States might be affected strategically and how it might respond to the acquisition by Iran of a nuclear weapon.

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 160,000 deployed in Iraq, to undertake such action, and that U.S. forces would be greeted with hostility by most Iranians. However, some experts believe that limited military action, such as air or missile strikes against suspected nuclear sites, could be a potentially useful option to set back Iran’s nuclear program. On February 22, 2005, during his visit to Europe, President Bush attempted to calm European concerns about such possible action, saying that “This notion that the United States is getting ready to attack Iran is simply ridiculous,” but he counterbalanced that statement by saying that “all options are on the table.”55 In the context of the apparent breakdown of EU-3 - Iran nuclear talks in August 2005, President Bush again raised this possibility by saying “all options are on the table” with Iran and that the United States has “already used force” to protect U.S. security, a reference to Iraq but directed at Iran.56 On the other hand, 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. In addition, several U.S. UAV’s reportedly have crashed inside Iran since mid-2005, prompting Iranian fears that the United States is conducting surveillance for a possible strike.

Those who argue against a strike believe Iran might retaliate through terrorism or other means, and question whether the United States is aware of or militarily able to reach all relevant sites. 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.57 Still others believe that an Iranian acquisition of a nuclear weapon would constrain U.S. military options against Iran.

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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, although some experts doubt that Israel has the capabilities that could conceivably make such action effective. On January 20, 2005, Vice President Cheney gave a radio interview suggesting that Israel might decide to undertake such a strike if the United States did not do so first. During an April 2005 visit to the United States, Israeli Prime Minister Ariel Sharon publicly said that no such strike is being planned, but a Defense Department decision to sell Israel $30 billion worth of 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.\footnote{Stone, Andrea. “U.S. Plans to Sell 100 Bunker Busting Bombs to Israel.” \textit{USA Today}, April 18, 2005.}

U.S. military analysts note that U.S. forces in the Gulf region could potentially be used against Iran, if the President so decides. 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 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,\footnote{Kralev, Thomas. “U.S. Asks Aid Barring Arms From Rogue States.” \textit{Washington Times}, June 5, 2003.} 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.\footnote{“British Commander Calls for More Cooperation With Iran in Persian Gulf.” \textit{BBC}, May 3, 2004.}

**International Sanctions?** The possible referral of Iran to the U.N. Security Council raises the question of whether international sanctions might be imposed on Iran. If further international sanctions are considered, some options that have been used or considered in similar cases could include the following:

- **Imposing an international ban on purchases of Iranian oil or other trade or a ban on international investment in Iran’s energy sector.** Such sanctions were imposed on Iraq after its 1990 invasion of Kuwait. However, these sanctions are considered unlikely because world oil prices have risen to nearly $60 per barrel.

- **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 the
effectiveness of such a program would likely depend on the degree of Iranian cooperation.

- Mandating reductions in diplomatic exchanges with Iran and limiting travel by some Iranian officials. These sanctions were imposed on the Taliban government of Afghanistan in 1999 in response to its harboring of Al Qaeda leadership.

- 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.

- Limiting further lending to Iran by international financial institutions.

U.S. Sanctions

Since the November 4, 1979, seizure of the U.S. hostages in Tehran, unilateral U.S. economic sanctions have been a major feature of U.S. Iran policy.61 To date, few, if any, other countries have joined U.S. sanctions initiatives on Iran, and no U.N. sanctions have been imposed. 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, and that foreign investment has flowed in nonetheless.62 Those 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.

- The terrorism list designation bans direct U.S. financial assistance and arms sales, restricts sales of U.S. dual use items, and requires the United States to oppose multilateral lending to the designated countries. (Section 1621 of the Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132, amended the Foreign Assistance Act to require the United States to vote against international loans to countries on the U.S. terrorism list).

- Successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) and indirect assistance (U.S. contributions to international organizations that work in Iran).

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

Section 307 of the Foreign Assistance Act of 1961 (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. (Some organizations have been exempted from such cuts in recent years.)

Iran also has been designated every year since 1997 as not cooperating with U.S. anti-terrorism efforts, under the Anti-Terrorism and Effective Death Penalty Act (P.L. 104-132). That act penalizes countries that assist or sell arms to terrorism list countries.

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, as discussed below.)

**Bam Earthquake.** 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 abortive “Iran-Contra Affair” of 1985-1986. The United States also deployed to Iran an 81-member Disaster Assistance Response Team (DART) composed of 7 USAID experts, 11 members of the Fairfax County (VA) urban search and rescue team, and 66 medical experts from the Federal Emergency Management Agency (FEMA). On December 27, 2003, the Administration issued a 90-day amendment to the Iranian Transaction Regulations to authorize U.S. persons to make donations of funds for humanitarian relief for the earthquake victims. Under the amendment, Iranian-owned banks could be used to effect the transfer of funds, although no Iranian financing could be accessed.

**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. It bars 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 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

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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. The Senate-passed and House-passed versions of S. 1713 would take that step. The House version, which extend INA sanctions provisions to Syria, was accepted by the Senate and became P.L. 109-112 on November 22, 2005.

Reflecting a Bush Administration decision to impose sanctions rather than overlook alleged violations or waive sanctions, the Bush Administration has sanctioned numerous entities, including from North Korea, China, India, Armenia, Taiwan, and Moldova. 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: Baranov Engine Building Association Overhaul Facility (Russia); Beijing Institute of Opto-Electronic Technology (China); Belvneshpromservice (Belarus); Blagoja Smakoski (Macedonia); Changgwang Sinyong Corp. (North Korea); Norinco (China); China Precision Machinery Import/Export Corporation (China); Elmstone Service and Trading (UAE); Goodly Industrial Co. (Taiwan); Mikrosam (Macedonia); Oriental Scientific Instruments Corp. (China); Vadim Vorobey (Russia); and Zibo Chemical Equipment Plant (China).
- 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 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.
As do previous years’ appropriations, the FY2005 foreign aid appropriation (P.L. 108-447) 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 civilian nuclear and ballistic missiles programs. The conference report on the FY2006 foreign aid appropriation (P.L. 109-102) contains a similar provision.

On the nuclear issue, Congress has recently passed legislation supporting strong U.S. steps against countries that help Iran with nuclear technology. In the 108th Congress, the House passed H.Con.Res. 398 calling on the international community to use “all appropriate means to deter, dissuade, and prevent Iran from acquiring nuclear weapons, including ending all nuclear and other cooperation with Iran....” 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 also would penalize countries that provide nuclear technology to Iran, unless Iran is deemed in full compliance with all its NPT obligations.

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 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. 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 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.

Following a 1998 application by a U.S. firm to sell Iran agricultural products, and in the context of Clinton Administration and congressional reviews of U.S. unilateral sanctions policies, the Clinton Administration announced in April 1999 that it would license, on a case-by-case basis, commercial sales of food and medical products to certain countries on which unilateral U.S. trade bans are in place (Iran, Libya, and Sudan). Under regulations issued in July 1999, 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.

After the March 2000 speech mentioned above, the trade ban was eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar; regulations governing the imports were issued in April 2000. 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 would reportedly provide its services, valued at $30 million to $35 million worth of fees per year, through Oriental Kish. This leaves unclear whether Halliburton would be considered in violation of the U.S. trade and
investment ban, or ILSA.\(^{65}\) Because of criticism within the United States, 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 pulled out of the Oriental Kish deal.\(^{66}\) 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 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). The renewal law required an Administration report on its effectiveness within 24-30 months, which did not recommend repeal. No sanctions have been imposed under ILSA; three companies involved in one project (South Pars) were deemed in violation in September 1998, but sanctions were waived. A number of other investments have remained “under review” for ILSA sanctions since 1999 (see CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*, by Kenneth Katzman).

The U.S. 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. The Bush Administration continues to oppose, and to threaten imposing ILSA sanctions on, regional pipeline projects that include Iran. U.S. policy promoted a pipeline that would cross the Caspian Sea and terminate in Ceyhan, Turkey (Baku-Ceyhan pipeline); the policy appeared to bear fruit when four Caspian nations (Turkey, Georgia, Azerbaijan, and Kazakhstan) formally embraced the route in November 1999. Regional and corporate support for the project subsequently gained momentum, construction began, and the pipeline began preliminary operations in May 2005. On the other hand, despite U.S. pressure not to import Iranian gas, in December 2001 Turkey began doing so through a new cross-border pipeline, under an August 1996 agreement. Iran is said to be importing gasoline from these countries and the Persian Gulf states because of a lack of adequate refining capacity in Iran.

A major emerging issue is that of a proposed gas pipeline from Iran to India, through Pakistan. Leaders of Iran, Pakistan, and India all say they want to pursue the project, despite U.S. opposition, and India and Pakistan have formed a working group to accelerate the project. During her visit to Asia in March 2005, Secretary of State Rice “expressed U.S. concern” about the pipeline deal, although neither she nor any

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other U.S. official has directly stated that it would be reviewed for ILSA sanctions. On June 7, 2005, U.S. Ambassador to Pakistan Ryan Crocker denied that the United States is pressuring Pakistan not to agree to the project. After voting in favor of the September 24 IAEA resolution on Iran’s nuclear program, India reiterated its interest in pursuing the project, but Indian officials say Iran has threatened to cancel the deal if India votes in November or subsequently to refer Iran’s nuclear activities to the Security Council.

As discussed above in the section on “regime change,” H.R. 282 and S. 333 have several provisions to tighten ILSA. These provisions are as follows:

- increasing the requirements on the Administration to justify waiving sanctions on companies determined to have violated its provisions;
- repealing the sunset (expiration) provision of ILSA;
- setting a 90-day time limit for the Administration to determine whether an investment constitutes a violation of ILSA. (There is not time limit in ILSA currently); and
- making exports to Iran of WMD-useful technology sanctionable under ILSA.

H.R. 282, as marked up, also

- would cut U.S. assistance to countries whose companies have invested in Iran’s energy sector;
- would apply ILSA’s provisions to foreign subsidiaries of U.S. companies; and would require public disclosure of investment funds that have investments in companies that have invested in Iran’s energy sector. (Some of these disclosure provisions are contained in separate bills, H.R. 1743 and S. 299).

**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.

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67 Some of the Indian companies that reportedly might take part in the pipeline project are: Oil and Natural Gas Corp.; GAIL (India) Ltd.; Indian Oil Corp.; and Bharat Petroleum Corp. Some large European companies have also expressed interest. See, Solomon, Jay and Neil King. “U.S. Tries to Balance Encouraging India-Pakistan Rapprochement With Isolating Tehran.” Wall Street Journal, June 24, 2005. P. A4.

68 ILSA sanctions with respect to Libya were terminated on April 23, 2004, on the grounds that the President certified Libya had complied with U.N. Security Council resolutions related to the December 21, 1988, bombing of Pan Am Flight 103.
Status of Some U.S.-Iran Assets Disputes. Iran views the issue of outstanding disputed commercial claims and U.S.-blocked assets as an obstacle to improved relations. A U.S.-Iran Claims Tribunal at the Hague is arbitrating cases resulting from the break in relations and freezing of some of Iran’s assets following the Iranian revolution. The major cases yet to be decided center on hundreds of Foreign Military Sales cases between the United 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. However, 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. (For more information on these and related disputes, 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. 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 immediately 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). He made state visits to several Western countries, including Italy (March 1999), France (October 1999), Germany (July 2000), and Japan (November 2000); the United States publicly welcomed these visits.

EU-Iran Trade Negotiations. In December 2002, Iran and the EU (European Commission) first began negotiations on a “Trade and Cooperation Agreement” (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries, with linkage to Iran’s addressing EU concerns on Iran’s human rights practices and terrorism sponsorship. However, revelations about Iran’s possible nuclear weapons ambitions caused the EU to suspend talks on a TCA in July 2003. The TCA talks resumed in January 2005 in concert with Paris Agreement negotiations on a permanent nuclear agreement, with working group discussions not only on the TCA terms and proliferation issues but also on Iran’s human rights record, Iran’s alleged efforts to derail the Middle East peace process, Iran’s record of supporting terrorist groups (Al Qaeda, Hezbollah, Hamas, and the PMOI, which Iran considers a terrorist group, although the EU does not). There were also discussions on counter-narcotics, refugees, and migration issues — issues on which Iran’s record has sometimes been positive. After the eighth round of negotiations on July 12-13, 2005, European Commission negotiators said the talks were making progress, although these talks have not resumed since the August breakdown of the Paris Agreement.
Multilateral, World Bank, and IMF Lending to Iran. During 1994-1995, and over U.S. objections, Iran’s European and Japanese creditors rescheduled about $16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling and International Monetary Fund (IMF) involvement. Iran’s improved external debt has 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. At the urging of the U.S. government, 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.

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 signal a harder line, the FY1994 foreign aid appropriations (P.L. 103-87) cut the amount appropriated for the U.S. contribution to the World Bank by the amount of those loans. That law, as well as the foreign aid appropriations for FY1995 (P.L. 103-306) and FY1996 (P.L. 104-107), would have reduced U.S. payments to the Bank if it had provided new loans to Iran, and the Bank then stopped approving new loans to Iran.

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, the United States does not have a large enough voting share to guarantee that outcome. In May 2000, the United States’ allies outvoted the United States and approved $232 million in loans for health and sewage projects. In May 2001 the Bank approved a two-year economic reform plan for Iran that envisioned $775 million in new Bank loans. 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.

On July 15, 2004, a proposed amendment to the House version of the FY2005 foreign aid appropriations, H.R. 4818, was defeated. It would have cut U.S. funding to the World Bank by the $360 million in loans to Iran that the Bank had approved in May 2004. 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.

In 1999-2000, Iran had asked the International Monetary Fund for about $400 million in loans (its quota is about $2 billion) to help it deal with its trade financing shortfalls. However, Iran balked at accepting IMF conditionality, and there was no agreement.

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 member state, and Iran began accession talks. Even if the nuclear issue is resolved, the talks could take many years.

Conclusion

Mistrust between the United States and Iran’s Islamic regime has run deep for over two decades and would not be easily erased. 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. Others say that, despite the victory of Mahmoud Ahmadinejad in the June 2005 presidential elections, 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.
Figure 1. Map of Iran

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