Iran: U.S. Concerns and Policy Responses

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### Report Documentation Page

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Prescribed by ANSI Std Z39-18
The Bush Administration has generally continued the Iran policies of previous administrations by attempting to contain Iran while pursuing limited engagement with it. At times, the Administration has appeared to favor a strategy of regime change, although without taking concrete steps in that direction. During the previous Administration, signs of moderation in Iran had stimulated the United States to try to engage Iran in broad, official talks. Relations took a downturn after the September 11, 2001, attacks on the United States when the issue of international terrorism took center stage. President Bush singled out Iran, North Korea, and Iraq as part of an “axis of evil” in his January 29, 2002, State of the Union message. Since then, common interests in stability in post-conflict Afghanistan and post-Saddam Iraq have led to occasional direct contact.

Iran’s alleged efforts to acquire weapons of mass destruction (WMD) and delivery means, coupled with its support of terrorist groups, have long been key U.S. concerns. The Bush Administration and many in Congress are expressing strong suspicions of Iran’s nuclear intentions; these concerns have been heightened by reported major strides in Iran’s nuclear program and halting and incomplete cooperation with a strict program of International Atomic Energy Agency (IAEA) inspections and safeguards. Another U.S. concern has been Iran’s active opposition to the U.S.-led Middle East peace process, including material support to Hizballah in Lebanon and such Palestinian groups as Hamas and Palestinian Islamic Jihad. Iran was quietly helpful in the U.S. effort to oust Iraq’s Saddam Hussein, a longtime Tehran adversary, although Iran reportedly is supporting Shiite Islamic factions there that do not espouse most Western values. Some senior Al Qaeda activists are in Iran as well, although Iran claims they are “in custody” and will be tried. Iran’s human rights practices and limits on democracy are frequently criticized by U.S. officials and Members.

The Bush Administration reportedly has been mulling a series of further policy options to curb Iran’s nuclear program and other aspects of Iranian policy it finds objectionable. These options included the adoption of a regime change policy, military action against suspected nuclear facilities, and a push for international sanctions to supplement U.S. unilateral sanctions already in force. 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. Some believe that Iran has elements of democracy, including presidential elections, that could enable direct U.S. engagement with Iran to yield progress on the nuclear as well as other major issues. According to this view, new sanctions or military action could harden Iran’s positions without necessarily easing the potential threat posed by Iran.

For further information, see CRS Report RS21592, Iran’s Nuclear Program: Recent Developments, and CRS Report RS21548, Iran’s Ballistic Missile Capabilities. This report will be updated as warranted by developments.
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Threat Assessments and U.S. Concerns

Part of the debate over U.S. policy toward Iran centers 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 continue to dominate and set a policy direction intended to challenge the United States’ pre-eminence in the region. The elements of that challenge include attempting to acquire weapons of mass destruction (WMD), supporting terrorist groups, and, in some past cases, backing dissident movements attempting to destabilize pro-U.S. regimes in the region. Others believe that common strategic interests in stability in Central Asia and the Persian Gulf could drive Iran to become a potential ally of the United States on at least some issues. In the view of some, this process could occur whether or not moderates prevail politically inside Iran. Still others maintain that Iran will constitute a major threat to U.S. interests unless and until all elements of the current regime are removed and replaced with a non-Islamic, pro-Western government.

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.

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 and Human Rights**

After about a decade as leader of the revolution, Ayatollah Khomeini died on June 3, 1989. His regime continues, now led by his clerical disciples. Upon Khomeini’s death, Ayatollah Ali Khamene’i, then serving as president, was named Supreme Leader. Khamene’i had been elected president in 1981 and was re-elected in 1985. Khamene’i lacks the unquestioned spiritual and political authority of Khomeini, but Khamene’i appears to face no direct threats to his position.

The United States does not have a declared policy of changing Iran’s regime, although some who favor a regime change policy point to a growing movement by pro-reform elements against the more conservative clerics that still dominate Iran’s top leadership. Since February 2002, Director of Central Intelligence (DCI) George Tenet has been saying that Iran’s reform movement is “losing momentum” to the “unelected” hardliners, including the Supreme Leader, Ayatollah Ali Khamene’i (successor to Ayatollah Khomeini) who controls appointments to key institutions such as the twelve-member (six clerics and six lawyers) Council of Guardians and the military. Khamene’i was not elected Supreme Leader upon Khomeini’s death, but was selected by an “Assembly of Experts” that chooses the person who will fill that position and can amend Iran’s constitution. The Assembly of Experts is an elected body. Even before the February 2004 victory in parliamentary elections by conservatives, Khamene’i and his allies had largely constrained the influence of the elected President, Mohammad Khatemi, who was re-elected on June 8, 2001 by a landslide 77% of the vote against nine more conservative candidates. Khatemi remains popular, by most accounts. His re-election victory was larger than his 69% first win in May 1997. His supporters held about 70% of the seats in the 2000-2004 Majlis after their victory in the February 18, 2000, elections.

Khatemi is a mid-ranking cleric, one rank below Ayatollah. He served as Minister of Culture and Islamic Guidance in the early 1990s. He was dismissed from that post in 1993 because of criticism that he was allowing Western cultural material to receive wider distribution in Iran. From his dismissal until his election in 1997, he was head of Iran’s national library. He derives key political support from a reformist grouping called the Islamic Iran Participation Front, headed by his brother, Mohammad Reza Khatemi, who was a deputy speaker in the 2000-2004 Majlis. Another group, the student-led Office for Consolidation and Unity, is generally pro-Khatemi but has reportedly become somewhat critical of him for failing to challenge the hardliners assertively. A third major pro-Khatemi grouping is the Mojahedin of the Islamic Revolution organization (MIR), composed mainly of left-leaning Iranian
figures who, during the 1980s, sought greater state control of the economy and export of Iran’s Islamic revolution to other countries in the region. A fourth grouping considered supportive of Khatemi and the reformists is the Society of Combatant Clerics. A prominent member of that grouping is Mehdi Karrubi, who was speaker of the 2000-2004 Majlis. Karrubi is a possible candidate to run for president in 2005 elections; another possible reformist candidate is former Culture Minister Ataollah Mohajerani.

Despite Khatemi’s popularity, the hardliners thwarted many of his programs and initiatives. Since early 2000, hardliners in the judiciary have closed more than 70 reformist newspapers, although many have tended to reopen under new names, and imprisoned or questioned several editors and even some members of the Majlis. Since mid-2002, Khatemi, partly in response to his reformist critics, became more vocal in criticizing obstructions by hardliners, and in late August 2002, he proposed new legislation that would strengthen the power of his office; it was passed by the elected 290 seat Majlis (parliament) but was blocked by the Council of Guardians. Khatemi suffered his first electoral setback in February 28, 2003 local elections, with hardliners winning most of the seats from Tehran in a low turnout (14%) election that suggested reformist disillusionment at the slow pace of reform.

Indications of popular dissatisfaction re-surfaced with major student demonstrations on June 8, 2003, the fourth anniversary of the violent suppression of students and others who were rioting in favor of faster reform. Some of the 2003 protesters called for Khatemi to resign for being ineffective in promoting reform. President Bush issued statements in support of the demonstrators, although Secretary of State Powell said the protests represented a “family fight” within Iran in which the United States should not seek a role. Press reports say as many as four students might have been killed by regime security forces during the days of protest.

2004 Political Crisis and February 2004 Majlis Elections. The power struggle caused a crisis in the run-up to the February 20, 2004, Majlis elections. The hardliner-dominated Council of Guardians disqualified about 3,600 mostly reformist candidates for the upcoming election, including 83 members of the current Majlis. (The disbarred incumbents included deputy speakers Mohammad Reza Khatemi and Behzad Nabavi.) Khatemi and Majlis leaders attempted to resolve the crisis in talks with Khamene’i, but the Council of Guardians refused to strictly follow Khamene’i’s urging to reinstate most candidates; the body restored eligibility for about 1,100 disbarred candidates but increased the number of disqualified incumbents to 87. The Interior Ministry (which ran the elections) and many reformists said the elections should have been postponed in order to be free and fair. However, Khatemi said he would obey Khamene’i’s directive to hold the elections on time.

Khatemi’s party grouping (the Iran Participation Front) boycotted the elections and urged a general boycott, but some reformist factions continued to participate. As was widely predicted before the election, conservatives fared well and won a majority — about 155 out of the 290 Majlis seats. Turnout was about 51%, according to the reformist-controlled Interior Ministry, signaling that Iranians did not necessarily answer the call of some reformists not to participate. Iran’s official media, controlled by conservatives, put the turnout at about 60%, while some reformists said turnout was only about 35%. On May 3, 2004, Khatemi issued a statement that reform of the
system was “inevitable” and suggesting that those blocking reforms were a minority who would eventually be compelled to give way for reform.

As a result of the election-related maneuvering, a moderate-conservative grouping called the Builders of Islamic Iran, led by former Labor Minister Ahmad Tavakkoli, emerged as a key bloc in the new Majlis. The chairman of the Expediency Council, former two-term president (1989-1997) Ali Akbar Hashemi-Rafsanjani, has seen his influence bolstered; he is considered the patron of many conservatives in the Majlis. One of his allies, the Secretary General of the Supreme National Security Council Hassan Rouhani, a defense and foreign policy decisionmaking body, is touted as a possible candidate for president in 2005.

Several governments, the United States and the European Union countries, criticized the election as unfair because of the widespread disqualification of the reformists. 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 (because of the exclusion of many reformist candidates) and should advocate “democratic government” in Iran. After the elections, on February 24, 2004, President Bush said “I join many in Iran and around the world in condemning the Iranian regime’s efforts to stifle freedom of speech. I am very disappointed.” A reported CIA assessment said the election dealt a severe blow to the reformists and that the election might deepen popular discontent with the clerical regime, but that Iran’s foreign and defense policies would likely not change much because decisions on these issues were already largely in the hands of Khamene’i and other conservatives.1

Major Dissidents and Anti-Regime Groups. In addition to the reformist camp that seeks to moderate the Islamic system of government from within the political structure, several major dissidents and opposition groups seek more sweeping change. One dissident cleric, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest. In September 2003, he criticized the seizure of the U.S. Embassy in 1979 as well as the core principle of the revolution: direct participation in government by the clerics. He had been Khomeini’s designated successor until 1989, when Khomeini dismissed Montazeri for allegedly protecting liberal intellectuals and other opponents of clerical rule. He remains under scrutiny by the regime, according to several press reports. Other prominent dissidents include exiled theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, and political activist Hashem Aghajari of the MIR, who was initially sentenced to death for blasphemy but whose sentence was overturned on review.

Some believe that the United States should support exiled opposition groups, which are banned inside Iran and seek the outright replacement rather than reform of the current regime. According to available information, no exile group is currently funded by the United States. In 1995, the Clinton Administration accepted a House-Senate conference agreement to include $18-$20 million in funding authority

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for covert operations against Iran in the FY1996 intelligence authorization act (H.R. 1655, P.L. 104-93), about $14 million more than requested, 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. The conference report on H.R. 2267 (H.Rept. 105-405), the FY1998 Commerce/State/Justice appropriation, provided an initial $4 million for a “Radio Free Iran,” to be run by Radio Free Europe/Radio Liberty (RFE/RL). The radio, which the Administration called the Farsi service of RFE/RL, began operations in Prague on October 31, 1998, and has become, as of December 2002, Radio Farda (“Tomorrow” in Farsi), which broadcasts nearly around the clock. Another U.S.-sponsored TV broadcast service to Iran, under the auspices of the Voice of America, began operations on July 3, 2003.

People’s Mojahedin Organization of Iran (PMOI). One major exiled opposition group is the People’s Mojahedin Organization of Iran (PMOI). 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 but was later excluded from power and forced into exile and into the underground. The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997 under the Anti-Terrorism and Effective Death Penalty Act of 1996, and the NCR was named as an alias of the PMOI in the October 1999 re-designations. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians, and its alleged killing of seven American defense advisers to the former Shah in 1975-76. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.

U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and, after temporarily agreeing to a ceasefire with PMOI military elements in Iraq, subsequently confined them to their Ashraf camp near the border with Iran. Press reports in late May 2003 said some Administration officials, particularly in the Defense Department, want the group removed from the FTO list and a U.S. alliance with the group against the Tehran regime. However, on August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI and NCR and ordered those facilities closed. National Security Adviser Condoleezza Rice said in mid-November 2003 that the United States is unambiguously treating the group as a terrorist organization. In December 2003, Iraq’s Governing Council voted to expel members of the group from Iraq, although the Council was not sovereign in Iraq and the fate of the PMOI detainees at the Ashraf camp might be subject to negotiations between U.S. officials in Iraq and a new interim government that took office on June 28, 2004.

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, who is still based in Iraq.) She was subsequently released. For

Pro-Shah Activists. Some Iranians follow the U.S.-based son of the late former Shah. On January 24, 2001, the son, Reza Pahlavi, who is about 46 years old, ended a long period of inactivity by giving a speech in Washington 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 major following there.3 Deputy Secretary of State Armitage testified before the Senate Foreign Relations Committee on October 28, 2003, that the United States might consider, on a case-by-case basis, providing funds to Iranian exile stations, using funds from the broader Middle East Partnership Initiative. (That program is an effort to promote democracy in the Middle East, but the State Department has determined that funds from this program, which are Economic Support Funds, cannot be used in Iran.) He also testified that, following a request to the Cuban government, the jamming from Cuba of Iranian exile and U.S. broadcasting to Iran had ceased; the jamming was carried out by Iranians in Cuba, not the Cuban government, according to Armitage.

Human Rights Record. Recent U.S. Administrations, including the State Department’s human rights report for 2003 released February 25, 2004, have harshly criticized Iran’s human rights record. U.S. policy has not generally considered Iran’s human rights record as a strategic threat to U.S. interests or an obstacle to the beginning of a U.S.-Iran dialogue. U.S. and U.N. human rights reports cite Iran for widespread human rights abuses (especially of the Baha’i faith), including assassinations and executions of regime opponents (Kurds, People’s Mojahedin, and others) in Iran and abroad. These reports note that Khatemi’s efforts to promote rule of law have met repeated challenges from hardliners. One major recent case was the apparent beating death while in Iranian detention of a Canadian journalist of Iranian origin, Zahra Kazemi. 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 was abruptly suspended on July 18, 2004, pending a verdict.

Iran’s hardliners significantly downplayed the naming in October 2003 of Iranian human rights/women’s rights lawyer Shirin Ebadi as winner of the Nobel Peace prize. Reformist newspapers acknowledged and at least mildly praised her award. In the 108th Congress, resolutions (S.Res. 82 and H.Res. 140) were introduced on March 12, 2003, expressing concern over Iran’s human rights record, particularly its treatment of women.

Religious Persecution. By almost all accounts, religious persecution continues, especially against the Baha’i community, because Iran’s Shiite Muslim clergy views the sect as heretical. Two Baha’is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran

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executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). The United States condemned the execution. In February 2000, Iran’s Supreme Court set aside the death sentences against three other Baha’is. On April 21, 1999, the Clinton Administration expressed concern about the sentencing to prison of four Baha’is. Several congressional resolutions have condemned Iran’s treatment of the Baha’is, including S.Con.Res. 57, 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 sense of Congress language on the Baha’is similar to that in previous years. Since March 1999, the State Department has each year named Iran as a “Country of Particular Concern,” under the International Religious Freedom Act, and little progress in Iran’s performance on this issue was noted in the December 2003 international religious freedom report. No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.

**Trial of 13 Jews.** Although 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, during 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews, who were 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) and received sentences ranging from 4 years to 13 years. Three Jews were acquitted. On September 21, 2000, a three-judge appeals panel reduced the sentences slightly, now ranging from two to nine years. On February 8, 2001, Iran’s Supreme Court let the revised sentences stand. In March 2001, Iran released one of the Jews on the grounds that his sentence included time served; another was released on January 16, 2002; and three more were given early release in October 2002. Iran said on April 24, 2003, that the remaining five had been released.

**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’s WMD programs. Iran is not considered a major conventional threat to the United States, but some of its weapons of mass destruction (WMD) programs, particularly its nuclear and ballistic missile programs, have made significant progress and could potentially put U.S. allies and forces at risk.

Iran’s armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard. The latter is generally loyal to the hardliners and, according to some recent press reports, becoming more assertive in political decisions. Guard personnel recently closed part of a new airport in Tehran when the government chose a foreign contractor to run the airport.

Iran’s ground forces are likely more than sufficient to deter or fend off conventional threats from Iran’s relatively weak neighbors such as post-war Iraq, Turkmenistan, Azerbaijan, and Afghanistan. Iran has tried to maintain good relations with its more militarily capable neighbors such as Turkey and Pakistan. According
to U.S. military officials, Iran’s forces could block the Strait of Hormuz at the entrance to the Persian Gulf, at least temporarily. However, Iran is largely lacking in logistical ability to project power far beyond its borders. No military tensions are currently evident between Iran and U.S. military forces in the Persian Gulf region, and U.S. military officials say that their encounters with Iranian naval vessels in the Gulf have been more professional since Khatemi took office.

Iran’s conventional capabilities have concerned successive U.S. Administrations far less than have Iran’s attempts to acquire weapons of mass destruction (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.

Iran may see WMD, particularly the acquisition of a nuclear weapons capability, as a means of ending its perceived historic vulnerability to U.S. domination, or as a symbol of Iran’s perception of itself as a major nation. Some observers 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. For further information, see CRS Report RL30551, Iran: Arms and Weapons of Mass Destruction Suppliers.

**Nuclear Program.**

U.S. and European concerns about the scope of Iran’s nuclear program have grown over the past few years, and U.S. and European policies have largely converged on the issue. The Bush Administration asserts that Iran is working toward a nuclear weapons capability, that it has violated its obligations under the 1968 Nuclear Non-Proliferation Treaty (NPT), and that Iran’s assertions that its nuclear program is for peaceful purposes only are not credible. On June 18, 2003, President Bush stated that the United States would “not tolerate construction” of a nuclear weapon by Iran, and he told journalists on April 21, 2004, that Iran “will be dealt with, starting through the United Nations,” if it does not fully cooperate with International Atomic Energy Agency (IAEA) inspections. No specific consequences have been threatened to date, but the Bush Administration, unsatisfied with progress on curbing Iran’s nuclear program, appears to want to begin discussing with U.S. allies and others the possible imposition of international economic sanctions. In contrast to the U.S. position, IAEA director Mohammad El Baradei has said that the “jury is still out” on whether Iran is trying to develop a nuclear weapon. IAEA Director General Mohammad Baradei met with President Bush on March 17, 2004, and Iran was reportedly a focus of their discussions; Baradei said after the meeting that U.S.-Iran talks could be a key to resolving outstanding nuclear issues.

A congressional resolution, H.Con.Res. 398, passed the House on May 6, 2004, by a vote of 376-13; it calls for all parties to the NPT, including the United States, to use “all appropriate means to deter, dissuade, and prevent Iran from acquiring

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4 For further information, see CRS Report RS21592, *Iran’s Nuclear Program: Recent Developments*.

nuclear weapons, including ending all nuclear and other cooperation with Iran...” The resolution calls on U.S. allies and others to cease investing in Iran and to cooperate with IAEA investigations into foreign assistance to Iran’s nuclear program.

After years of public and governmental assessments of Iran’s nuclear program — assessments that acknowledged substantial uncertainty about the quality and amount of firm information — U.S. and European suspicions were heightened considerably in December 2002 when Iran confirmed PMOI and other allegations that it was building two additional facilities, at Arak and Natanz, that could be used to produce fissile material that could be used for a nuclear weapon. Natanz could produce enriched uranium by 2005, and the Arak facility reportedly is a heavy water production plant. Heavy water is used in a reactor that is considered ideal for the production of plutonium. These revelations, coupled with other information that has been produced from recent IAEA visits to Iran, has caused some observers to estimate that by some time in 2005, Iran’s nuclear program will have advanced to the point at which it cannot be curbed.\(^6\)

Despite the stepped up international attention and European and other support for the U.S. position, throughout most of 2003 Iran still refused to sign the “Additional Protocol” to the NPT, which would allow for enhanced inspections. Iran did modify its safeguards agreement to provide advanced notice of new nuclear facilities construction. On September 12, 2003, the IAEA Board of Governors adopted a statement giving Iran until the end of October 2003 to provide additional information that would prove that it is not working on a nuclear weapon. The setting of the deadline came amid IAEA reports that it had found some highly enriched uranium at two sites in Iran, (Natanz and the Kalaye Electrical Company).

At the same time, Russia, despite its own growing concerns about Iran’s intentions, has been working to complete a nuclear power plant at Bushehr, a project implemented under a January 1995 contract with Iran. Iran said in October 2003 it would sign an agreement under which Russia would reprocess the plant’s spent nuclear material, but no firm agreement has been signed to date. Russian officials say the accord is ready for signature and might be signed in the fall of 2004 during a planned visit by the head of Russia’s nuclear agency. The recent new revelations about Iran’s nuclear program have apparently made Russia more skeptical of Iran’s promises, and work on Bushehr was halted temporarily during 2003, and the plant is not expected to become operational until some time in 2005.\(^7\) Russian President Vladimir Putin, after meeting with President Bush on September 27, 2003, said the Bushehr project would resume but that Russia would contribute to the international effort to ensure that Iran does not develop a nuclear weapon. IAEA Director Baradei said in June 2004 that the Bushehr project itself is not a cause for international concern as accelerating an Iranian nuclear program.

**October 21, 2003, Joint Statement.** With pressure growing on Iran to meet the October deadline for full disclosure, the foreign ministers of Germany,

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France, and Britain accepted an invitation from Iran to visit. On October 21, the three countries and Iran issued a joint statement in which Iran pledged, in return for promises of future exports of peaceful nuclear technology, the following:

- to fully disclose to the IAEA all aspects of its past nuclear activities;
- to sign and ratify the Additional Protocol; and
- to temporarily suspend uranium enrichment activities.

On October 22, Iran handed over to the IAEA a thick file that it said detailed all its nuclear activities. U.S. officials, including President Bush, said the European-Iranian agreement represented progress and a “positive development,” but that Iran would ultimately be judged by its implementation. Some outside experts maintain that the joint statement did not ensure that Iran could not use an alternate route, such as plutonium production, to develop nuclear weapons. Khamene’i publicly backed the deal in early November 2003, amid demonstrations against the deal by Iranian hardliners. Iran signed the Additional Protocol on December 18, 2003 and says it will abide by its provisions, although the Majlis has not yet ratified it.

In its November 10, 2003 and February 24, 2004 reports, the IAEA said that Iran had committed violations of its agreements, including unreported uranium enrichment, over an 18-year period, and that Iran did not declare designs, found in Iran by the IAEA in early 2004, of advanced uranium enrichment centrifuges, parts of which Iran made itself. The latter report added that traces of both highly enriched and low-enriched uranium had been found at two sites in Iran. The latter report added that the Iranian military has been involved in manufacturing centrifuge equipment. IAEA board resolutions adopted after these reports condemned Iran’s previous violations and said Iran had not resolved outstanding issues, but welcomed what cooperation Iran has been providing.

The IAEA last visited Iran in mid-April 2004 to verify Iran’s pledge that it had stopped manufacturing centrifuges for uranium enrichment. The IAEA issued another report on May 31, 2004, which said Iran is continuing to make parts and materials that could be used in a nuclear weapons program. On June 18, 2004, amid reports Iran had bulldozed or altered suspected nuclear sites, the IAEA adopted another resolution rebuking Iran for failing to clear up questions about highly enriched uranium found in Iran and Iran’s efforts to build or acquire enrichment centrifuge equipment. The United States said after the adoption of the resolution that Iran’s lack of full compliance should be reported to the United Nations Security Council, which would have the power to impose economic sanctions. After the rebuke, Iran said it would resume building centrifuges for uranium enrichment, although it said it remained committed to suspending actual enrichment activity.

Iran has become connected to allegations 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 late January 2004, Pakistan’s

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government said its investigation concluded that at least two nuclear scientists, including Khan, provided unauthorized assistance to Iran’s nuclear weapons program during the 1980s.\footnote{Lancaster, John and Kamran Khan. Pakistanis Say Nuclear Scientists Aided Iran. \textit{Washington Post}, January 24, 2004.} In February 2004, Khan publicly admitted selling such goods to Iran, Libya, and North Korea.

**Chemical and Biological Weapons.** Official U.S. reports and testimony, particularly the semi-annual CIA reports to Congress on WMD acquisitions worldwide, state that Iran is seeking a self-sufficient chemical weapons infrastructure, mainly from Chinese sources, and that it is stockpiling chemical weapons, including blister, blood, and choking agents. 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 may have some capability to produce biological agents, but that its ability to make weapons from them is limited.\footnote{“Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 January Through 30 June 2002” [http://www.cia.gov/cia/reports/721_reports/jan_jun2002.html].}

**Missiles.** Largely with Russian help, Iran is making progress in its missile program. Two of its first three tests of the 800-mile range \textit{Shahab-3} (July 1998, July 2000, and September 2000) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of final tests in June 2003, subsequently calling the missile operational and formally delivered several of them to the Revolutionary Guard. Iran publicly displayed six \textit{Shahab-3} missiles in a parade on September 22, 2003. If the missile is operational with the capabilities Iran claims, that would put virtually all of Iran’s potential regional adversaries, including Israel, as well as U.S. bases in Turkey, within reach. Iran is also trying to make a 1,200 mile range \textit{Shahab-4}, but U.S. officials told journalists in late October 2002 that an Iranian test of an extended-range Shahab had failed. Other press reports in August 2003 said Iran is in talks with North Korea to procure copies of that country’s “Taepodong 2” missile, which would enable Iran to strike Europe and East Asia. On November 7, possibly as a confidence-building measure to coincide with its nuclear agreement with the European foreign ministers, Iran said it would abandon development of the \textit{Shahab-4}.

In March 2002, an intelligence community official upgraded the missile threat from Iran, testifying that the United States would “most likely” face an intercontinental ballistic missile threat from Iran by 2015.\footnote{“Greater U.S. Concern About Iran Missile Capability.” \textit{Reuters}, March 11, 2002.} On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile, and Iran said in late September 2002 that it had begun production of the missile.\footnote{“Iran: New Missile on the Assembly Line.” \textit{New York Times}, September 26, 2002.} (For more information, see CRS Report RS21548, \textit{Iran’s Ballistic Missile Capabilities}.)}
Foreign Policy and Support for Terrorism

Iran’s support for terrorist groups has long concerned U.S. Administrations, particularly since it gives Tehran an opportunity to try to obstruct the U.S.-led Middle East peace process. Tehran contends that the Arab-Israeli peace process is inherently weighted toward Israel, a U.S. ally, and cannot result in a fair outcome for the Palestinians. Iran’s continued support for anti-Israel terrorism contributed to President Bush’s strong criticism of Iran in his 2002 State of the Union message. The State Department report on international terrorism for 2003, released April 30, 2004, again stated, as it has for most of the past decade, that Iran “remained the most active state sponsor of terrorism in 2002,” although the report attributes the terrorist activity to two hardline institutions — the Revolutionary Guard and the Intelligence Ministry.14 (See also CRS Report RL31119, Terrorism: Near Eastern Groups and State Sponsors, 2002.)

Analysts see Iran’s support for terrorist groups as one element in a broader foreign policy.15 Its policy is a product of the ideology of Iran’s Islamic revolution, blended with and sometimes tempered by longstanding national interests that predate the Islamic revolution. Iran has tried to establish relatively normal relations with most of its neighbors, but, in its relations with some neighbors it has tried to actively influence internal events by promoting minority or anti-establishment factions.

Persian Gulf States. During the 1980s and early 1990s, according to U.S. officials and outside experts, Iran sponsored Shiite Muslim extremist groups opposed to the 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 more away from confrontation with the Gulf states — a policy shift that accelerated after the election of Mohammad Khatemi as president. Khatemi has largely succeeded in improving relations with the Gulf states by reducing support for Shiite dissident movements there. (See CRS Report RL31533, Persian Gulf States: Post-War Issues for U.S. Policy, 2003.)

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 progressively higher level contacts have taken place since December 1997. 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 visit the Kingdom as well but has not done so. The exchanges suggest that Saudi Arabia has tried to move beyond the issue of the June

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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.16

On June 21, 2001, a federal grand jury in the United States indicted 14 suspects, 13 Saudis and a Lebanese citizen, for that bombing. The indictment indicated 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. On December 18, 2003, former FBI Director Louis Freeh testified in a civil trial on behalf of American victims of the Khobar bombing, saying that there was “overwhelming evidence” that senior Iranian officials directed and financed that bombing. (See CRS Issue Brief IB93113, Saudi Arabia: Postwar Issues and U.S. Relations.)

Relations between Iran and the United Arab Emirates (UAE) have been strained since April 1992, when Iran asserted complete control of 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 wants to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. In concert with Iran’s reduction of support for Gulf dissident movements, UAE-Iran tensions have eased substantially, but Iran maintains it has sovereignty over the islands. 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 (the Iranian side is called South Pars). The North field is in operation and produces natural gas for export; Iran’s side of the field is at an earlier stage of exploitation. 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.

**Iraq.** Senior U.S. officials have, on several occasions since the fall of Saddam Hussein on April 9, 2003, warned Iran not to interfere in post-war Iraq by trying to establish a pro-Iranian Islamic republic there. U.S. officials, including Defense Secretary Donald Rumsfeld, have said they will not accept an Iran-style Islamic republic in post-Saddam Iraq. Iran publicly opposed the major U.S. military offensive against Iraq on the grounds that it was not authorized by the United Nations, but many observers believe Iran was relieved to see its erstwhile nemesis Saddam Hussein removed and hoped his fall would bring to power pro-Iranian Shiite Muslim groups.17 Iran welcomed Iraq’s Governing Council as a legitimate authority when it was appointed in July 2003, and it pledged some, mainly in-kind, assistance for Iraq’s reconstruction at the October 23-24, 2003, donors conference in Madrid.

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Recently, as violence in Iraq has escalated, Iran has criticized the U.S. presence in Iraq as repressive of the Iraqi people while failing to stabilize Iraq.

The main thrust of Iran’s strategy in Iraq appears to be to persuade all Shiite Islamist factions in Iraq to work together to ensure Shiite Muslim dominance of post-Saddam Iraq. Iran’s primary proteges in Iraq are Shiite Islamist groups based in southern Iraq, groups that Iran has supported since its 1979 Islamic revolution. The most pro-Iranian of these parties is the Supreme Council for the Islamic Revolution in Iraq (SCIRI), followed closely by the Da’wa (Islamic Call) party. SCIRI was headed by Ayatollah Mohammad Baqr al-Hakim, the late Ayatollah Khomeini’s choice to head an Islamic republic in Iraq, and who returned to Iraq on May 10, 2003. He was killed in a major car bombing in Najaf on August 29, 2003, conducted by unknown assailants, and was succeeded as SCIRI head by his younger brother, Abd al-Aziz al-Hakim. Since then, Tehran has continued to expand ties to Grand Ayatollah Ali al-Sistani, the 75-year-old Shiite cleric who is emerging as the leading Shiite political figure in Iraq. He was born in Iran, moving to Najaf, Iraq at the age of 21. Sistani is taking strong stands on U.S. plans for political transition in Iraq, but Sistani has, throughout his career, differed with Iran’s doctrine of direct clerical involvement in government.

Some reports allege that Iran is backing radical Shiite cleric Moqtada al-Sadr, whose followers have staged an uprising against U.S. and allied forces in Iraq since early April 2004. However, Sadr is viewed as a challenger to Sistani and the other mainstream Shiite Islamist groups, and backing him might appear contrary to Tehran’s overall strategy for Iraq, and therefore unlikely. On the other hand, it is possible that some in Iran might want to engage Sadr to bring him into the broader Iraqi Shiite fold or to ensure that Iran has contact with him should he prevail in any internal Iraqi power struggle.

Iran reportedly might have used its influence in Iraq to develop sources of information on U.S. operations in Iraq. Press reports say Iraqi political leader Ahmad Chalabi gave his Iranian contacts information on U.S. acquisition of Iranian intelligence codes. Chalabi has denied the allegations. Some experts say that most Iraqi Shiites generally stayed loyal to the Iraqi regime during the 1980-1988 Iran-Iraq war and oppose any extensive Iranian influence over post-Saddam Iraq. (For more information on Shiite and other contenders for power in Iraq, see CRS Report RL31339, Iraq: U.S. Regime Change Efforts and Post-Saddam Governance.)

On June 21, 2004, Iran seized eight British seamen on a mission in the waterway between Iran and southern Iraq. Iran released the British personnel after a few days’ detention, although Britain says Iran had steered the British personnel into Iranian waters. The seizure could be related to a reported Iranian buildup of military force in areas near the border with Iraq, and other reports of Iranian attempts to move the Iranian border slightly into territory that now belongs to Iraq. The Iranian

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conventional military moves at the border could reflect Iranian nervousness about U.S.-led coalition operations in Iraq or possibly be part of the broader attempt to bolster Iraqi Shiites politically.

Beginning in 1998, Saddam Hussein had sought to improve relations with Iran to reduce Iraq’s regional isolation. Iran and Iraq exchanged almost all remaining prisoners from the Iran-Iraq war. An October 2000 visit to Iraq by Iran’s Foreign Minister Kamal Kharrazi resulted in agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords, which Iraq had abrogated prior to its September 1980 invasion of Iran. In exchange for a share of the proceeds, Iran’s naval forces sometimes cooperated with Iraq’s illicit export of oil through the Gulf. Iran did not return the military and civilian aircraft flown to Iran at the start of the 1991 Gulf war, and some post-Saddam Iraqi politicians have said they want Tehran to return the aircraft now that Saddam is gone.

Supporting Anti-Peace Process Groups. Many of the U.S. concerns about Iran’s support for terrorism center on its assistance to groups opposed to the Arab-Israeli peace process, primarily Hamas, Palestinian Islamic Jihad (PIJ), Hizballah, and the Popular Front for the Liberation of Palestine-General Command. U.S. terrorism reports, including the State Department report on global terrorism for 2002, said that following the start of the September 2000 Palestinian uprising, Iran increased its covert support for terrorism by encouraging coordination among Palestinian terrorist groups. 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). In early 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 many observers because Iran has traditionally had few ties to the non-Islamist Palestinian organizations, including elements linked to the PA, that have conducted some of the day-to-day violence against Israel in the current uprising.

On the other hand, there appear to be differences within Iran’s leadership on Iran’s policy toward the peace process. Khamene’i has continued to call Israel a “cancerous tumor” and make other statements suggesting that he seeks Israel’s destruction. Khatemi, while publicly pledging support for the anti-peace process groups, has sometimes tried to moderate Iran’s position somewhat. On October 15, 2002, the Iranian Foreign Ministry, considered an institutional ally of Khatemi, said Iran would not seek to block any final, two-state Israeli-Palestinian settlement.

In early January 2004, Iran said it was close to agreement to restore full diplomatic ties with Egypt. Iran severed those ties to protest Egypt’s 1979 peace treaty with Israel. Iran is in the process of meeting an Egyptian demand to rename a Tehran street that is named after Khalid Islambouli, lead assassin of Anwar as-Sadat.

A small number (about 200) of Iranian Revolutionary Guards reportedly remain in Lebanon to coordinate Iranian arms deliveries to Hizballah, which are offloaded
in Damascus and trucked into Lebanon.\textsuperscript{20} The shipments have included Stingers obtained by Iran in Afghanistan, mortars that can reach the Israeli city of Haifa if fired from southern Lebanon, and, in 2002, over 8,000 Katyusha rockets, according to Israeli leaders.\textsuperscript{21} In mid-April 2002, Foreign Minister Kharrazi visited Lebanon and urged Hizballah to exercise restraint on the Israeli-Lebanese border at a time of heightened tensions between Israel and the Palestinians. However, Hizballah is believed by some experts to take its cues from harder line Iranian elements. In May 2003, Khatemi made the first top level Iranian visit to Lebanon since the 1979 revolution. 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 July 18, 1994 bombing of a Jewish community center in Buenos Aires, which killed 85. Hizballah is believed to have committed the act, as well as the March 17, 1992 bombing of Israel’s embassy in that city.

\textbf{Relations With Central Asia and the Caspian.} Iran’s policy in Central Asia has thus far emphasized economic cooperation over Islamic ideology. Iran has become increasingly assertive in its relations with Azerbaijan, even though that country’s population, like Iran’s, adheres to Shiite Islam. In early 1992, Iran led the drive to bring the Central Asian states and Azerbaijan into the Economic Cooperation Organization (founded in 1985 by Iran, Pakistan, and Turkey, as a successor to an organization founded by those states in 1964). Iran is hoping to attract energy pipeline routes through it, rather than through other countries. However, Iran does host at least one anti-Azerbaijan guerrilla leader (Hasan Javadov), and it allegedly harbors leaders of the Islamic Movement of Uzbekistan (IMU), including founder Tahir Yuldashev.

Tensions with Azerbaijan flared in late July 2001 over energy exploration rights in the Caspian: 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 of Azerbaijan’s President Heydar Aliyev to Iran, although there was little evident progress on a bilateral division of their portions of the Caspian.

\textbf{Al Qaeda/Afghanistan/Pakistan.} Iran long opposed the puritanical Sunni Muslim 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 several Iranian diplomats based in northern Afghanistan, and it provided military aid to the anti-Taliban Northern Alliance coalition, made up of mostly Persian-speaking minority groups. 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. Iran and the


\textsuperscript{21} “Israel’s Peres Says Iran Arming Hizbollah.” \textit{Reuters}, February 4, 2002.
United States also participated in a U.N.-sponsored group in Geneva, which includes Italy and Germany.

Iran tacitly supported the U.S.-led war on the Taliban and Al Qaeda by offering the United States search and rescue of any downed service-persons and the transshipment to Afghanistan of humanitarian assistance. However, some of Iran’s subsequent activities in Afghanistan reflect official suspicion of the United States and the influence of hardliners in Iran’s regime. Iran is said to fear the pro-U.S. tilt of the new government of Afghanistan and it is moving to restore Iran’s traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate. There have been press reports and U.S. official statements since January 2002 that hardliners in Iran have been harboring, or at least not aggressively moving to arrest, senior Al Qaeda operatives who have fled Afghanistan.22 U.S. charges on this issue were renewed after the May 12, 2003 bombings in Riyadh, Saudi Arabia, believed conducted by Al Qaeda, against four expatriate housing complexes. Recent findings of the U.S. bipartisan commission looking into the September 11, 2001 attacks assert that Iran and Al Qaeda might have cooperated to an extent in the Khobar Towers attacks and that several of the September 11 hijackers might have transited Iran. On the latter issue, the September 11 commission reportedly will not assert that the Iranian government cooperated with or necessarily knew about the September 11 plot, although a Middle Eastern press report (Sharq al-Awsat) on July 19, 2004, said a senior Iranian revolutionary guard officer assisted their passage.23 In response to reports of the September 11 commission’s upcoming findings, President Bush said the United States would continue to investigate possible ties between Iran and Al Qaeda.

Iran has tried to head off some of the criticism that it is tolerant of or even cooperating with Al Qaeda. On July 23, 2003, Iranian officials, for the first time, asserted Iran had “in custody” senior Al Qaeda figures, purported to include Al Qaeda spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl,24 and possibly also Osama bin Laden’s son, Saad, and Ansar al’Islam (a faction based in Iraq) operative Abu Musab al-Zarqawi. Iran said in late January 2004 that it would try the high-ranking Al Qaeda members in Iran, but U.S. officials called on Iran to fulfill its “international obligations in the global war on terrorism” by turning them over to their countries of origin for trial. Hardliners in Iran reportedly want to support or protect Al Qaeda activists as leverage against the United States and its allies. Some reports say Iran might want, in return for extraditing the Al Qaeda suspects, a U.S. pledge to hand over to Iran those PMOI activists still in Iraq (see above information on the PMOI).

Other press reports say Iran is arming local Afghan strongmen including Herat governor Ismail Khan, Mazar-e-Sharif governor Abdul Rashid Dostam, and others, and President Bush has warned Iran not to seek to exert influence over the new


government of Afghanistan. Apparently seeking to deflect the U.S. criticism, in March 2002 Iran expelled Gulbuddin Hikmatyar, an opponent of the new Afghan government. The expulsion followed a February 24, 2002, visit to Iran by Afghan leader Hamid Karzai; the two countries agreed to broad cooperation. (See CRS Report RL30588, Afghanistan: Current Issues and U.S. Policy Concerns.)

U.S. Policy Responses

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 and sustained thawing 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 and mostly indirect official contact thereafter. An exception was the abortive 1985-86 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hizballah in Lebanon (the so-called “Iran-Contra Affair”). Despite the Iran-Contra Affair, U.S. policy throughout most of the 1980s featured a marked tilt toward Iraq in the 1980-88 Iran-Iraq war. The tilt included U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq, 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.

The end of the Iran-Iraq war in August 1988 appeared to lay the groundwork for a reduction in U.S.-Iran hostility. In his January 1989 inaugural speech, President George H.W. Bush said that, in relations with Iran, “goodwill begets goodwill,” holding out the prospect for better relations if Iran helped obtain the release of U.S. hostages held by pro-Iranian groups such as Hizballah in Lebanon. Iran reportedly did assist in obtaining the release of all U.S. and other Western hostages in Lebanon by 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. The George H.W. Bush Administration devoted substantial attention to that process, organizing the October 1991 Madrid Conference that brought Israel to the table with Syria, Lebanon, Jordan, and the Palestinians.

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 more information on economic sanctions against Iran, see below.) The election of Khatemi in May 1997 precipitated a shift in U.S. policy toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In

January 1998, Khatemi publicly agreed to increase “people-to-people” exchanges with the United States 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 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 meetings at the United Nations in connection with the Millennium Summit, Albright and President Clinton sent a positive signal to Iran by attending Khatemi’s speeches.

**Bush Administration Policy**

Until early 2002, the Bush Administration appeared to be continuing the Clinton Administration efforts to establish formal ties to Iran by building on the cooperation between the two countries in Afghanistan. The Administration’s November 13, 2001 continuation of the 1979 national emergency on Iran said that U.S. “relations with Iran have not yet returned to normal,” a far softer statement than previous justifications sighting a continued threat from Iran. However, because of Iran’s long sponsorship of terrorist groups, the September 11, 2001 attacks stimulated discussion of new policy options toward Iran, some of which were intended to isolate and pressure Iran rather than engage it. As an example of continuing tensions between the United States and Iran, in late June 2004 the United States expelled two Iranian guards at Iran’s mission to the United Nations in New York for filming sensitive sites in New York.

**Regime Change Policy?** Some believe that only a change of regime would reduce substantially the strategic threat from 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 because of the weakness of opposition groups committed to major change of Iran’s regime, as well as the history of anti-Americanism on the part of some Iranian opposition groups. Others question whether regime change, even if achievable, could succeed in time to prevent Iran’s acquiring a nuclear weapons capability.

The Bush Administration has shown some inclination for this option since U.S.-Iran relations worsened in January 2002 over allegations of Iran’s sale of arms to the Palestinian Authority and reputed meddling in Afghanistan. President Bush named Iran as part of an “axis of evil,” along with Iraq and North Korea, in his January 2002 State of the Union message. 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 a new U.S. radio broadcast to Iran, Radio Farda (“Tomorrow” in Farsi). The statements appeared to signal a shift in U.S. policy from attempting to engage and support Khatemi to publicly supporting Iranian reformers and activists, some of whom believed Khatemi has made insufficient progress toward reform. These U.S. moves were interpreted as steps toward a regime change policy for Iran.
The apparent shift toward a regime change strategy was mirrored in legislation. Two resolutions introduced in late July 2002 (S.Res. 306 and H.Res. 504) called for positive U.S. gestures toward “the people of Iran, and not political figures whose survival depends upon preservation of the current regime.” A Senate bill, S. 1082, introduced May 19, 2003, by Senator Sam Brownback, has been widely interpreted as urging support for ideas associated with the son of the late Shah (see above); it calls for the use of some U.S. funds for the holding of an internationally-monitored democratic referendum in Iran. A House bill (H.R. 2466), introduced by Representative Brad Sherman, contains similar provisions and adds sections reimposing import sanctions on luxury goods from Iran. Elements of these bills, particularly a section calling on the Administration to try to block international lending to Iran, were incorporated into the House-passed version of the FY2004 foreign relations authorization bill (H.R. 1950). On July 16, 2004, Senator Santorum introduced S. 2681, expressing the sense of Congress that U.S. policy toward Iran should be that of regime change, and authorizing $10 million in U.S. assistance to pro-democracy groups opposed to Iran’s regime. A July 19, 2004 New York Times report says Senator Brownback plans to introduce legislation that will contain regime change provisions with respect to Iran that are similar to those applied to Iraq in a 1998 bill — the Iraq Liberation Act (P.L. 105-338). That bill authorized drawdowns of U.S. military assistance to anti-Saddam groups.

Congressional sentiment for democracy promotion in Iran manifested in foreign aid appropriations for FY2004. The FY2004 foreign operations appropriation provides (H.R. 2673, P.L. 108-199) provides “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 has determined that the funds cannot be channeled through the Middle East Partnership Initiative, because that program’s funds are Economic Support Funds (ESF) and cannot be used in Iran. The $1.5 million “soft earmark” is being used for Iran-related programs run through the National Endowment for Democracy (NED), funded by the State Department’s Bureau of Democracy and Labor (DRL). The State Department report on U.S. efforts to promote democracy and human rights abroad (2003-2004) implies that U.S. efforts to do so are somewhat limited by lack of U.S. access to Iran, and it states that “Iran is currently ineligible for most official programmatic assistance from the United States pursuant to U.S. law,” which could imply that use of U.S. funds for groups operating inside Iran, as stated in the FY2004 foreign operations law, might be difficult. Another issue is whether such democracy promotion efforts would be interpreted within Iran as U.S. meddling — a sensitive issue in Iran — and whether these programs would reach sufficient numbers of Iranians to be effective.

Toward the end of 2003, the forces within the Bush Administration advocating regime change policy appeared to diminish. On October 28, 2003, 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.” The waning talk of a regime change policy might have reflected the U.S. difficulty in stabilizing Iraq, as well as Iran’s pledges in late 2003 to open its nuclear program to greater international scrutiny.
Engagement?  Some U.S. officials have long believed that a policy of engagement would be more successful in curbing Iran’s nuclear program and support for terrorist groups. The Bush Administration has pursued this option to some extent, despite sometimes appearing to lean toward regime change. In May 2003 both countries publicly acknowledged that they were conducting direct talks in Geneva on Afghanistan and Iraq. 26 This marked the first confirmed direct dialogue. However, Iran said the talks did not indicate that the two countries were on the verge of restoring diplomatic relations. One press report says that, in May 2003, Iran proposed to the United States a roadmap to normalized relations, but the offer received no response because of opposition from those in the Administration who do not believe extensive engagement would yield sufficient benefits. 27 The United States broke off the dialogue, at least temporarily, following the May 12, 2003, bombing in Riyadh that some press reports say might have been planned by Al Qaeda activists located in Iran. In the context of increasing U.S. and international pressure on Iran for its suspected efforts to acquire a nuclear weapons capability, Jordan’s King Abdullah, after visiting Iran in mid-September 2003, reportedly told the Bush Administration that he sensed that Iran wanted to resume dialogue with the United States on Iraq and Afghanistan issues. 28 In his October 28, 2003, testimony, discussed above, Deputy Secretary of State Armitage said the United States is prepared to resume that dialogue, although Iran has not yet assented to resume those talks.

On December 29, 2003, following U.S.-Iran contact to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, Secretary of State Powell said that the United States is open to resuming dialogue with Iran. Subsequently, major U.S. newspapers reported that the Administration asked Iran if it would welcome a high-level delegation to Iran, headed by Senator Elizabeth Dole and a Bush family member, to build on the apparent goodwill generated by U.S. earthquake relief efforts. However, Iran rebuffed the offer of the Dole mission, at least for the present time, and some Iranian leaders, including Khatemi, said that the cooperation on earthquake relief would not translate into a major thaw in U.S.-Iran relations. A congressional resolution, H.Res. 526, passed March 2, 2004, by a vote of 381-0, expressed sympathy for the Bam earthquake victims.

Further indications of possible engagement came in early 2004. Several Members of Congress and congressional staff had dinner with visiting Iranian Representative to the United Nations Mohammad Javad Zarif. At the dinner, U.S.-Iran relations were discussed, as was a trip to Iran by congressional staff. 29 Following

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public discussion of the proposed staff visit, Iran’s Foreign Minister Kharrazi said such a visit is “not on our agenda” at this time.30

On the other hand, revelations since February 2004 that Iran has not been disclosing all aspects of its nuclear program, as promised — coupled with the February 2004 “Majlis elections crisis” (see above) — have stalled any movement toward further U.S.-Iran engagement. Although Iran’s conservatives are open to dialogue with the United States, the Bush Administration has strongly criticized Iran on both fronts. Two forthcoming research institute reports — one by the Council on Foreign Relations and one by the Atlantic Council — are expected to recommend 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.31

**Military Action?** Even before the October 21, 2003, joint nuclear statement with the European countries, there was little evidence of any discussion within the Administration of major U.S. military action to remove Iran’s regime. Among outside experts, there has been speculation since the U.S.-led war against Iraq (begun March 19, 2003) that the United States might undertake major military action against other perceived threats such as Iran or Syria. Some believe that military action against Iran should be taken if it is demonstrated that Iran has had operational linkages to Al Qaeda or had prior knowledge of the September 11, 2001 attacks on the United States. Some supporters of military action against Iran say that U.S. forces are likely spread too thin, including about 140,000 deployed in Iraq, to undertake it at this time. Opponents of such action say that U.S. forces would be greeted with hostility by most Iranians and that Iran already has elements of democracy that could be promoted without the U.S. use of force.

Some experts believe that the United States should focus first and foremost on Iran’s nuclear capability, and that limited military action, such as air strikes against suspected nuclear sites, could be a potentially useful option. Expressing particular fear that Iran might achieve a nuclear weapons capability, some Israeli officials have openly discussed the possibility that Israel might strike Iran’s nuclear infrastructure, although Israel does not necessarily have the capabilities that the United States possesses that could conceivably make such action effective. U.S. military analysts note that U.S. forces in the Gulf region could potentially be used against Iran, if the President so decides. A related option, 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. The Administration has discussed with its allies a similar measure that could be used to block North Korea’s technology exports and alleged drug smuggling,32 an initiative that has won allied support. In contrast, some officials

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of allied governments, including Britain, have called for greater cooperation with Iran to curb the movement of smugglers and terrorists across the Persian Gulf.33

**International Sanctions?** Iran is not subject to U.N. sanctions. However, the Bush Administration is now seeking referral of Iran’s lack of full compliance on nuclear issues to the U.N. Security Council for consideration of international sanctions. If international sanctions are considered, some options that have been used or considered in similar cases could be imposing an international ban or limitations on purchases of Iranian oil or other trade, mandating reductions in diplomatic exchanges with Iran or flight travel to and from Iran, and limiting further lending to Iran by international financial institutions. It is not certain that the U.N. Security Council or the boards of directors of international financial institutions would back such proposals. Versions of some of these options have been sought by some recent U.S. Administrations and recent legislation, but as discussed below, the United States has generally had difficulty imposing any formal multilateral sanctions on Iran. The sections below analyze U.S. sanctions on Iran, as well as past efforts to persuade U.S. allies and other countries to pressure Iran economically.

**U.S. Sanctions**

Since the November 4, 1979 seizure of the U.S. hostages in Tehran, U.S. economic sanctions have formed a major part of U.S. policy toward Iran. On November 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979. To date, few, if any, other countries have followed the U.S. lead by imposing sanctions on Iran, and no U.N. sanctions exist on that country. Some experts believe that U.S. sanctions have hindered Iran’s economy, forcing it to curb spending on conventional arms purchases, but others believe that sanctions have had only marginal effect, and that foreign investment has flowed in despite U.S. sanctions.34 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. Because oil prices remain relatively high, Iran’s economy is expected to grow about 4% in 2003. Most analysts seem to agree that sanctions would have had a far greater effect on Iran if they were multilateral or international.

**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 so-called “terrorism list.” The terrorism 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 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. Separate from its position on the 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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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. 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 is providing some earthquake related lending as well, as discussed below.)

**Bam Earthquake.** The United States provided considerable assistance to the victims of the December 2003 earthquake in Bam, Iran, which might have killed as many as 50,000 people and destroyed 90% of Bam’s buildings. In response, 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). Iranian-American and other organizations are coordinating donations in the United States for victims of the quake. 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 can be used to effect the transfer of funds, although no Iranian financing can 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 (P.L. 106-178) authorizes sanctions on foreign entities that assist Iran’s WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under the Agency’s control had not transferred any WMD or missile-related technology to Iran within the year prior. The provision contains certain exceptions to ensure the safety of astronauts who will use the space station and for certain space station hardware.

During 2001-2003, a number of entities in North Korea, China, India, Armenia, and Moldova were sanctioned under the Iran Non-Proliferation Act, 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 late May 2003, the Bush Administration sanctioned a major Chinese industrial entity, Norinco, for allegedly selling missile technology to Iran. On July 4, 2003, an additional Chinese entity, the Taiwan Foreign Trade General Corporation, was sanctioned under the Iran Non-Proliferation Act. 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 Iran Non-Proliferation Act: Baranov Engine Building Association Overhaul Facility (Russia); Beijing Institute of Opto-Electronic Technology (China); Belvunepromservice (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).

**Counternarcotics.** 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 exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. According to several governments and independent observers, 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.

**Trade Ban.** On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran, including the trading of Iranian oil overseas by U.S. companies. 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 13, 2003, 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. Some goods related to the safe operation of civilian aircraft can 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). Implementing regulations do not permit U.S. firms to negotiate investment deals with Iran.

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. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive. 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 has provided the credit guarantees.

In 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%.

**The Iran-Libya Sanctions Act (ILSA).** The Iran-Libya Sanctions Act (ILSA, H.R. 3107, P.L. 104-172, signed August 5, 1996) sanctions foreign 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 (H.R. 1954, P.L. 107-24, signed August 3, 2001). The renewal law requires an Administration report on its effectiveness within 24-30 months (as early as August 2003). No sanctions have been imposed under ILSA, although three companies involved in one project (South Pars) were deemed in violation in September 1998; but sanctions were waived. Total and Petronas have formed a $2 billion joint venture with an Iranian oil company to produce liquified natural gas from South Pars. This investment is part of a wave of new French investment in and sales of consumer products to Iran: French exports to Iran have doubled over the past five years to about $2.5 billion per year.35

A number of other investments have remained “under review” for ILSA sanctions since 1999. In October 2002, Norway’s Statoil agreed to invest $300 million to develop phases six, seven, and eight of the South Pars gas field. As noted below, Japanese firms have reached agreement with Iran to develop the Azadegan field, and the outcome of a competition between BP and Totalfina Elf to develop the Bangestan field (about $2 billion) is expected. On March 18, 2004, a Chinese state oil trading firm said it had signed a deal with Iran to import more than 110 million tons of liquified natural gas from Iran over 25 years, a deal valued at $25 billion, although this arrangement would not appear to constitute an “investment” in Iran’s energy sector. Foreign firms have invested about $15 billion in Iran’s energy sector since Iran opened it to investment. See CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA).*

On October 20, 2003, Representative Ileana Ros-Lehtinen introduced the “ILSA Enhancement and Compliance Act” (H.R. 3347) intended to make it more difficult for the Administration to waive sanctions on companies determined to have violated its provisions. The legislation would also repeal the sunset (expiration) provision of ILSA. (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.)

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Caspian/Central Asian Energy Routes Through Iran. 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, pipeline projects through Iran. U.S. policy has been to promote construction of 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) signed an agreement embracing Baku-Ceyhan on November 18, 1999. Regional and corporate support for the project subsequently gained momentum and pipeline construction has begun. 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.

In late April 2004, Iran began a major oil swap project with its neighbors, which Iran asserted was a response to U.S. efforts to promote alternate routes. Under the project, Iran imports 170,000 barrels of crude oil from Russia, Kazakhstan, and Turkmenistan. In return, Iran export an equivalent amount of Iranian oil from its Gulf ports on behalf of those producers.

Allied Country Policies Toward Iran

A cornerstone of the policies of successive U.S. administrations has been to persuade U.S. allies to cooperate with the United States to contain Iran. 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. Alongside Khatemi’s accession and the associated U.S. shift toward engagement, the EU-Iran dialogue formally resumed in May 1998, and U.S.-allied differences on Iran narrowed. Khatemi undertook 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.

On December 12, 2002, Iran and the EU began formal negotiations on a trade pact that would lower the tariffs or increase quotas for Iranian exports to the EU countries, with some linkage to Iran 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 announce, in July 2003, suspension of talks on a trade agreement. The EU says resumption of the trade talks is contingent on Iran’s full cooperation with the IAEA on nuclear issues. The EU countries have also said their policies toward Iran have been colored by the conservatives’ banning of reformist candidates in the February 2004 elections, and by other Iranian human rights abuses.

Britain/France. The resolution of the “Rushdie affair” to Britain’s satisfaction sparked improvement in its relations with Iran. Iran maintains that Ayatollah
Khomeini’s 1989 death sentence against author Salman Rushdie cannot be revoked (his “Satanic Verses” novel was labeled blasphemous) because Khomeini is no longer alive to revoke it. On September 24, 1998, Iran’s Foreign Minister pledged to Britain that Iran would not seek to implement the sentence and opposed any bounties offered for his death. Britain then upgraded relations with Iran to the ambassadorial level, and their foreign ministers routinely exchange visits. In October 2000, Britain began extending longer term credit (two years or greater) for exports to Iran. Some Iranian clerics (outside the formal government structure) have said the death sentence stands, and the Iranian government has not required the Fifteen Khordad foundation to withdraw its $2.8 million reward for Rushdie’s death. Khatemi said on June 4, 2001 that he considers the issue closed.

As noted above (ILSA section), French-Iranian economic relations have burgeoned in recent years. French investment in Iran now goes well beyond the energy sector into car production in Iran and other initiatives. Some of the major French companies investing in Iran (outside the energy sector) include Renault, Societe-Generale (banking), Peugeot, and Alcatel.

**Japan-Iran Relations.** In August 1999, Japan continued a gradual improvement in relations with Iran by announcing a resumption of Japan’s official development lending program for Iran to construct a hydroelectric dam over the Karun River. However, the $70 million increment announced was less than Iran had wanted, and Japan said that this tranche would close out Japan’s involvement in the project. (In 1993, Japan provided the first $400 million tranche of the overall $1.4 billion official development loan program, but the lending was subsequently placed on hold as the United States sought to persuade its allies to pressure Iran.) In late January 2000, Japan agreed to resume medium- and long-term export credit insurance for exports to Iran, suspended since 1994. Economic relations improved further during Khatemi’s November 2000 visit to Tokyo, which resulted in Iran granting Japanese firms the first right to negotiate to develop the large Azadegan field. A $2 billion deal to develop that field was expected by June 30, 2003 but Japan’s firms did not reach an agreement by that deadline, partly in protest of Iran’s nuclear program. However, possibly because of Iran’s pledges of cooperation with nuclear inspections, the consortium of Japanese firms — Japan Petroleum Exploration Company, Inpex Corp, and Tomen Corp — signed the Azadegan deal on February 18, 2004. Partly at U.S. urging, Japan has refused to extend to Iran new official loans.

**Multilateral/International Lending to Iran.** During 1994-1995, and over U.S. objections at the time, 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 has worked its external debt down from $32 billion in 1997 to below $20 billion as of March 2004, according to Iran’s Central Bank. The improved debt picture 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

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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 the credit ratings service might violate the U.S. trade ban.

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. 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. To signal opposition to international lending to Iran, the FY1994 foreign aid appropriations (P.L. 103-87) cut the Administration’s request 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. 103-326) and FY1996 (P.L. 104-107), would have significantly reduced U.S. payments to the Bank if it had provided new loans to Iran.

By 1999, Iran’s moderating image had led the World Bank to consider new loans. In May 2000, the United States was unsuccessful in obtaining further delay on a vote on new lending for Iran, and its allies outvoted the United States in approving $232 million in loans for health and sewage projects. Twenty one of the Bank’s twenty four governors voted in favor, and France and Canada abstained. Despite the required U.S. opposition, on May 10, 2001, the World Bank’s executive directors voted to approve a two-year economic reform plan for Iran that envisions $775 million in new Bank loans. In April 2003, the Bank approved $20 million in loans for environmental management, and in June 2003, it approved a loan for $180 million for earthquake assistance. On October 29, 2003, a Treasury Department official, Bill Schuerch, testified before the House Financial Services Committee that the United States would continue to try to block new World Bank loans to Iran, but that the United States has not been successful in blocking recent loans and could not guarantee that outcome. 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.

A section of a bill in the 108th Congress, H.R. 2466, contains a provision similar to that of these earlier laws — mandating cuts in U.S. contributions to international financial institutions that lend to Iran. However, on July 15, 2004, a proposed amendment to the House version of the FY2005 foreign aid appropriations (H.R. 4818) was defeated. The amendment would cut U.S. funding to the World Bank by the $390 million that the Bank had approved in May 2004 in new lending to Iran.

WTO Membership. The Bush Administration said in July 2001 that U.S. opposition to Iran’s membership in the World Trade Organization (WTO) was “under review.” On several occasions since then, the WTO, at U.S. urging, has postponed discussion on whether to launch entry talks with Iran. On October 21, 2003, a U.S. delegate to the WTO again vetoed the start of entry talks between the WTO and Iran, saying the United States was still “reviewing” whether Iran should be admitted. The U.S. veto was the 15th time in the past three years that the United States has blocked entry talks for Iran.
Travel Sanctions. 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.

Assets Disputes/Victims of Terrorism. Iran views the issue of disputed claims and 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 is in a DOD account, and about $22 million in diplomatic property remains blocked. The assets issue moved to the forefront following several U.S. court judgements against Iran for past acts of terrorism against Americans, filed under the Anti-Terrorism and Effective Death Penalty Act of 1996. For information on suits against Iran that have been filed, their outcomes, and legislation regarding these suits, see CRS Report RL31258, Suits Against Terrorism States by Victims of Terrorism.

Regarding the mistaken U.S. shootdown on July 3, 1988 of an Iranian Airbus passenger jet, on February 22, 1996, the United States, responding to an Iranian case before the International Court of Justice (ICJ), agreed to pay Iran up to $61.8 million in compensation ($300,000 per wage earning victim, $150,000 per non wage earner) for the 248 Iranians killed. The funds for this settlement came from a general appropriation for judgments against the United States. The United States previously paid $3 million in death benefits for 47 non-Iranians killed in the attack, but has not compensated Iran for the airplane itself. A different case, pending before the ICJ, involves an Iranian claim for damages to Iranian oil platforms during U.S. naval clashes with Iran in October 1987 and April 1988.

Conclusion

Mistrust between the United States and Iran’s Islamic regime has run deep for over two decades. 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. Some believe relations are likely to worsen if Iran does not fully and unambiguously abandon any efforts toward achieving a nuclear weapons capability. Others believe that U.S.-Iran relations might be determined by whether Iran extradites suspected Al Qaeda leaders believed to be in Iran.

Others say that, despite the victory of conservatives in 2004 parliamentary 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. Some believe that Iran has thus far refused to extradite Al Qaeda leaders in Iran because Iran views these figures as leverage with the United States and perhaps as a bargaining chip to persuade the United States to extradite to Iran oppositionists based in Iraq.