Iran: U.S. Concerns and Policy Responses

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Summary

According to the Administration’s “National Security Strategy” document released on March 16, 2006, the United States “may face no greater challenge from a single country than Iran.” That perception intensified following the military confrontation between Iranian-armed and assisted Lebanese Hezbollah and Israel in July-August 2006. To date, the Bush Administration has pursued several avenues to attempt to contain the potential threat posed by Iran. However, the Administration focus on preventing an Iranian nuclear weapons breakthrough has brought diplomatic strategy to the forefront of U.S. policy. As part of that effort, the Bush Administration announced May 31 it would negotiate with Iran in concert with U.S. allies if Iran suspends uranium enrichment; in past years the Bush Administration had only limited dialogue with Iran on specific regional issues. However, Iran did not comply with an August 31, 2006, deadline to cease uranium enrichment, contained in U.N. Security Council Resolution 1696 (July 31, 2006), dividing the United States and partner countries over whether to continue diplomacy with Iran or move to impose international sanctions on it.

If diplomacy and sanctions do not succeed, some advocate military action against Iran’s nuclear infrastructure rather than acquiescence to a nuclear-armed Iran. Others in the Administration believe that only a change of Iran’s regime would end the threat posed by Iran.

Iran’s nuclear program is not the only major U.S. concern on Iran. Successive administrations have pointed to the threat to the United States and its allies posed by Iran’s policy in the Near East region, particularly material support to groups that use violence to prevent Israeli-Arab peace. Such groups have long included Lebanese Hezbollah and the Palestinian groups Hamas and Palestinian Islamic Jihad. Although there is no evidence of an operational relationship with Al Qaeda, some senior Al Qaeda activists are believed to be in Iran, although Iran claims they are “in custody.” U.S. officials also accuse Iran of attempting to exert influence in Iraq by providing arms and other material assistance to Shiite Islamist militias, some of which are participating in escalating sectarian violence against Iraq’s Sunnis there.

Iran’s human rights practices and strict limits on free expression have been consistently criticized by official U.S. and U.N. reports. Iran’s purported repression of ethnic and religious minorities, particularly the Bahai’is, is said to be harsh. However, Iran holds elections for many senior positions, including that of president.

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

Political History ........................................................... 1

Regime Stability, Human Rights, and Recent Elections .................. 2
  Former President Mohammad Khatami and the Reformists ........... 2
  The Conservatives and Election of Ahmadinejad ...................... 3

Groups Advocating Change ............................................. 7
  Regime Members-Turned Dissidents .................................. 7
  Anti-Regime Groups: People’s Mojahedin Organization of Iran (PMOI) ........................................... 7
  The Son of the Former Shah ......................................... 8
  Other U.S.-Based Activists ........................................ 8

Human Rights and Religious Freedom ................................ 9

Iran’s Strategic Capabilities and Weapons of Mass Destruction Programs .... 12
  Conventional Military .............................................. 12
  Weapons of Mass Destruction: Nuclear Program ................... 14
  U.S. Offer to Join Talks and Future Steps ........................ 17
  Resolution 1696 and Follow-Up .................................... 18

Chemical Weapons, Biological Weapons, and Missiles ................. 19
  Ballistic Missiles/Warheads ....................................... 20
  Relations With The Persian Gulf States ............................ 21
  Iranian Policy in Iraq ............................................. 23
  Supporting Palestinian Militant Groups ............................ 23
  Central Asia and the Caspian ...................................... 26
  Afghanistan ................................................................... 26
  Al Qaeda .................................................................... 27

U.S. Policy Responses and Legislation .................................. 28
  Bush Administration Policy and Options ......................... 29
  Regime Change ......................................................... 29
  Congress and Regime Change ....................................... 30
  Engagement? .................................................................. 32
  Military Action? ....................................................... 32
  Containment? ............................................................ 33
  International Sanctions? ............................................. 34

U.S. Sanctions .................................................................. 35
  Terrorism/Foreign Aid Sanctions ..................................... 36
  Proliferation Sanctions ............................................... 36
  Counter-Narcotics ..................................................... 38
  Trade Ban ..................................................................... 39
  The Iran-Libya Sanctions Act (ILSA) ................................. 41
  Travel-Related Guidance ............................................. 41
  Status of Some U.S.-Iran Assets Disputes ......................... 41

Multilateral Policies Toward Iran ...................................... 42
  EU-Iran Trade Negotiations/WTO Membership ..................... 42
  Multilateral, World Bank, and IMF Lending to Iran ............. 42

Conclusion ................................................................. 43
List of Figures

Figure 1. Structure of the Iranian Government ......................... 44
Figure 2. Map of Iran ................................................... 45
Iran: U.S. Concerns and Policy Responses

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

Political History

The United States was an ally of the late Shah of Iran, Mohammad Reza Pahlavi (“the Shah”), who ruled from 1941 until his ouster in February 1979. The Shah assumed the throne when Britain and Russia forced his father, Reza Shah Pahlavi (Reza Shah), from power because of his perceived alignment with Germany in World War II. Reza Shah had assumed power in 1921 when, as an officer in Iran’s only military force, the Cossack Brigade, he launched a coup against the government of the Qajar Dynasty. He was proclaimed Shah in 1925, founding the Pahlavi dynasty. The Qajar had been in decline for many years before Reza Shah’s takeover. Its perceived manipulation by Britain and Russia had been one of the causes of the 1906 constitutionalist movement, which forced the Qajars to form Iran’s first Majles (parliament) in August 1906 and to promulgate a constitution (December 1906).

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, under pressure from nationalists in the Majles (parliament) who gained strength in the 1949 Majles elections, 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 successful CIA-supported uprising against Mossadeq.

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

Khomeini fled to and taught in Najaf, Iraq before going to France in 1978, from which he stoked the Islamic revolution. Mass demonstrations and guerrilla activity
by pro-Khomeini forces, allied with a broad array of anti-Shah activists, caused the Shah’s government to collapse in February 1979. Khomeini returned from France and, on February 11, 1979, declared an Islamic Republic of Iran. The Islamic republic, as enshrined in the constitution that was adopted in a public referendum in December 1979 (and amended in 1989), is characterized by direct participation in government by Shiite Islamic theologians, a principle known as *velayat-e-faqih* (rule by a supreme Islamic jurisprudent). Khomeini was strongly anti-West and particularly anti-U.S., and relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

**Regime Stability, Human Rights, and Recent Elections**

About a decade after founding the Islamic republic, Ayatollah Ruhollah Khomeini died on June 3, 1989. The regime he left behind remains relatively stable, despite internal schisms, occasional unrest in areas occupied by minority populations, and substantial unpopularity among intellectuals, educated elites, and many women. Upon his death, one of his disciples, Ayatollah Ali Khamene’i, then serving as president, was selected Supreme Leader by an “Assembly of Experts” (an elected body). Khamene’i had served two terms as elected president (1981-1989), but he has lacked the unquestioned religio-political authority of Khomeini. Recently, he has been gaining strength by using his formal powers to appoint heads of key institutions, such as the armed forces and half of the twelve-member Council of Guardians. This conservative-controlled body reviews legislation to ensure it conforms to Islamic law, and it screens election candidates. Another appointed body is the 37-member Expediency Council, set up in 1988 to resolve legislative disagreements between the *Majles* (parliament) and the Council of Guardians. It is headed by former President (1989-1997) Akbar Hashemi-Rafsanjani; its executive officer is former Revolutionary Guard leader Mohsen Reza’i.

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

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

2 The Council of Guardians consists of six Islamic jurists and six secular lawyers. The six Islamic jurists are appointed by the Supreme Leader. The six lawyers on the Council are selected by the Majles (parliament).
Pro-reform elements gradually became disillusioned with Khatemi for his refusal to confront the hardliners. This dissatisfaction erupted in major student demonstrations in July 1999 in which four students were killed by regime security forces, and Khatemi reluctantly backed the crackdown. On June 8, 2003, a time period marking the fourth anniversary of those riots, regime forces again suppressed pro-reform demonstrators. President Bush issued statements in support of the 2003 demonstrators, although then Secretary of State Powell said the protests represented a “family fight” within Iran.

Khatemi was supported by several political organizations:

- The Islamic Iran Participation Front (IIPF). The most prominent and best organized pro-reform grouping, it is headed by Khatemi’s brother, Mohammad Reza Khatemi, who was a deputy speaker in the 2000-2004 Majles.

- The student-led Office for Consolidation and Unity. This group became critical of Khatemi for failing to challenge the hardliners.

- The Mojahedin of the Islamic Revolution organization (MIR). Composed mainly of left-leaning Iranian figures who support state control of the economy.

- The Society of Combatant Clerics/Mohammad Khatemi. A long-time moderate clerical grouping, it was headed by Khatemi following his departure from the presidency. Khatemi, who also heads the International Center for Dialogue Among Civilizations, continues to travel abroad and remains a public figure in Iran. He visited the United States in September 2006 to speak at Harvard University and the Washington National Cathedral on his concept of “dialogue of civilizations,” although he also expressed support for Ahmadinejad’s government and criticized U.S. Middle East policy. Another member of the Combatant Clerics grouping is Mehdi Karrubi, who was speaker of the 2000-2004 Majles and finished third in the June 17, 2005, presidential elections.

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

**The Conservatives and Election of Ahmadinejad.** Iran’s conservatives generally want to slow reform. Supported by Supreme Leader Khamene’i, conservatives have been gaining strength since the February 28, 2003, municipal elections, when reformists largely boycotted and hardliners won most of the seats. They gained additional strength from the February 20, 2004, Majles elections, in which the Council of Guardians disqualified about 3,600 mostly reformist candidates, including 87 members of the current Majles, enabling the conservatives to win a majority (about 155 out of the 290 seats) on turnout of about 51%. The Majles
On May 22, 2005, the Council of Guardians, as expected, significantly narrowed the field of candidates to 6 out of the 1,014 persons who filed. (In the 2001 presidential election, the Council permitted to run 10 out of the 814 registered candidates.) At Khamene’i’s request, two reformist candidates were reinstated (Moin and Mohsen Mehralizadeh). On the eve of the first round, President Bush criticized the elections as unfair because of the denial of so many candidacies.³ In the June 17, 2005 first round, turnout was about 63% (29.4 million votes out of 46.7 million

eligible voters). With 21% and 19.5%, respectively, Rafsanjani and Ahmadinejad moved to a run-off. Ahmadinejad won a landslide victory in the June 24 runoff, receiving 61.8% to Rafsanjani’s 35.7%. Turnout was 47%, less than the first round, suggesting that reformists did not turn out in large numbers to prevent Ahmadinejad’s election. He took office on August 6, 2005.

On August 14, 2005, Ahmadinejad presented for Majles confirmation a 21-member cabinet composed largely of little-known hardliners, over half of whom were his associates in the Revolutionary Guard, the Basij, or the Tehran mayorality. However, the Majles rejected the first three of his oil-minister nominees. He appointed the hardline Ali Larijani, one of his first round rivals, as Secretary General of the Supreme National Security Council; Larijani serves as chief negotiator on nuclear and most other security issues. In keeping with a practice begun by Khatemi, he also named a woman as one of his vice presidents. Qalibaf assumed Ahmadinejad’s former job as Tehran mayor. Ahmadinejad has inflamed world opinion with several anti-Israel statements:

- On October 26, 2005, he stated at a Tehran conference entitled “A World Without Zionism” that “Israel should be wiped off the map” and that “anybody who recognizes Israel will burn in the fire of the Islamic nations’ fury.” A U.N. Security Council statement and Senate and House resolutions (H.Res. 523 and S.Res. 292), passed in their respective chambers, condemned the statement.

- On December 9, 2005, and then again on December 14, 2005, and May 28, 2006, he questioned the veracity of the Holocaust. In the December 14 case, he called it a “myth” — and stated that Europe should create a Jewish state in Europe, not in the Middle East. (Purportedly at Ahmadinejad’s behest, in January 2006, Iran’s Foreign Ministry said it would hold a conference on the Holocaust, and an Iranian team visited Germany to investigate the history of the Holocaust.)

- On January 1, 2006, Ahmadinejad said that the European countries created Israel after World War II to continue the process of ridding the European continent of Jews. On April 14, 2006, he said Israel is “heading toward annihilation.”

Some Iranian leaders have been concerned that Ahmadinejad’s statements might isolate Iran. The concern might have contributed to two decisions by Supreme Leader Khamene’i that have led to speculation that he is trying to curb Ahmadinejad’s authority. The first decision was the October 2005 grant of new governmental supervisory powers to Rafsanjani’s Expediency Council. The second was the July 2006 creation of a ten-person advisory “Foreign Policy Committee” consisting of former defense and foreign ministers. However, Ahmadinejad continues to appear politically secure because of progress on nuclear technology as well as his ties to others who served in the Revolutionary Guard and other revolutionary institutions in the early days after the Islamic revolution. Among other moves, he has removed about 40 senior diplomats, mostly reformist oriented, from their positions overseas.
**Economic Factors Assisting Stability.** The regime has been helped in recent years by high oil prices, which are nearly $60 per barrel. These same factors could help Iran minimize the effects of international sanctions that might be imposed in response to its nuclear activities. Ahmadinejad appears to have increased regime popularity by directing the raising of some wages, cancelling some debts of farmers, and increasing social welfare payments. However, oil revenues account for about 20% of Iran’s gross domestic product (GDP), and he has not moved to correct economic structural imbalances. Major economic sectors or markets are controlled by the quasi-statals “foundations” (*bonyads*), run by powerful former officials, and there are special trading privileges for Iran’s powerful bazaar merchants who form the main constituency for the Supreme Leader and other senior conservatives.

### Some Economic Indicators

<table>
<thead>
<tr>
<th>Economic Growth (2005)</th>
<th>4.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proven Oil Reserves</td>
<td>100 billion barrels (fifth in world)</td>
</tr>
<tr>
<td>Refined Gasoline Imports</td>
<td>$3 billion - $4 billion value per year (60% from European oil trader Vitol)</td>
</tr>
<tr>
<td>Oil Production</td>
<td>4 million barrels per day (mbd)</td>
</tr>
<tr>
<td>Oil Exports</td>
<td>2.4 mbd</td>
</tr>
<tr>
<td>Major Oil Customers</td>
<td>China - 450,000 barrels per day (bpd); about 4% of China’s oil imports; Japan - 800,000 bpd, about 12% of oil imports; South Korea - about 9% of its oil imports; Italy - 9% from Iran; France - 7%; Belgium - 14%; Turkey - 22%; Greece - 24%; India - 150,000 bpd (10% of its oil imports)</td>
</tr>
<tr>
<td>Refined Gasoline Suppliers</td>
<td>India, Kuwait, Turkey, Venezuela</td>
</tr>
<tr>
<td>Some Major Trading Partners</td>
<td>Japan ($7.5 billion exports to Japan); China ($3.9 billion exports, $2.7 billion imports); Italy ($5.3 billion equally divided import/export); Germany ($4.9 billion imports from); France ($3.2 billion imports)</td>
</tr>
<tr>
<td>Foreign Exchange Reserves</td>
<td>$40 billion</td>
</tr>
<tr>
<td>External Debt</td>
<td>$19 billion (2005 est.)</td>
</tr>
<tr>
<td>Income Per Capita (purchasing power parity)</td>
<td>$8,100 per year</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>11.2% (2004)</td>
</tr>
</tbody>
</table>

**Source:** CIA World Factbook, various press, IMF.
Groups Advocating Change

The regime appears generally stable, but there are factions that actively seek to modify its human rights and other policies or to replace it outright. The groups that seek outright replacement of the regime, by accounts of observers, have little popularity inside Iran.

Regime Members-Turned Dissidents. Several dissidents were part of the regime but now seek change, including the withdrawal of Iran’s clerics from direct participation in government. These dissidents reputedly are popular inside Iran, but their ascendancy, were it to occur, might not fundamentally alter Iran’s relations with the United States. One such figure, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest, but he remains under scrutiny. He had been Khomeini’s designated successor until 1989, when Khomeini dismissed him for allegedly protecting intellectuals and other opponents of clerical rule. Other former regime dissidents still closely watched or harassed include theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, former hostage-holder Abbas Abdi, and activist Hashem Aghajari of the MIR grouping.

Anti-Regime Groups: People’s Mojahedin Organization of Iran (PMOI). Of the groups seeking to replace the regime, one of the best known is the People’s Mojahedin Organization of Iran (PMOI). Secular and left-leaning, it was formed in the 1960s to try to overthrow the Shah of Iran and advocated a form of Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution and supported the November 1979 takeover of the U.S. Embassy in Tehran but was later purged and driven into exile. In June 2003, France arrested about 170 PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, whose whereabouts are unknown); she was released and remains in France.

Even though it is an opponent of Tehran, since the late 1980s the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997 and the NCR was named as an alias of the PMOI in the October 1999 re-designation. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians — although the group does not appear to purposely target civilians. The State Department report on international terrorism for 2005 (p. 212), for the first time, incorporates an assertion by the group that it was a radical element of the organization — rather than the leadership of the organization itself — that was responsible for the alleged killing of seven American defense advisers to the former

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


6 The designation was made under the authority of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132).
Shah in 1975-1976. The State Department report also notes the group’s promotion of women in its ranks. On August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI, and NCR and Justice Department authorities closed down those offices. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.

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

Press reports say that some Administration officials want the group removed from the FTO list and want a U.S. alliance with it against the Tehran regime. Then National Security Adviser Condoleezza Rice stated in November 2003 that the United States unambiguously considers the group as a terrorist organization. However, the debate over the group was renewed with the U.S. decision in July 2004 to grant the Ashraf detainees “protected persons” status under the 4th Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. At the same time, some Iraqi leaders from pro-Iranian factions, including Prime Minister Nuri al-Maliki, have said that the group might be expelled from Iraq by early 2007.

The Son of the Former Shah. Some Iranian exiles, as well as some elites still in Iran, want to replace the regime with a constitutional monarchy led by Reza Pahlavi, the U.S.-based son of the late former Shah and a U.S.-trained combat pilot. However, he does not appear to have large-scale support inside Iran. In January 2001, the Shah’s son, who is about 45 years old, ended a long period of inactivity by giving a speech in Washington D.C. calling for unity in the opposition and the institution of a constitutional monarchy and democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California. His political adviser is MIT-educated Shariar Ahy.

Other U.S.-Based Activists. Numerous other Iranians, not necessarily linked to the Shah’s son or the PMOI, want to see a change of regime in Tehran. Many of them are based in California, where there is a large Iranian-American community, and there are about 25 small-scale radio or television stations that broadcast into Iran. Some U.S.-based activists are the following:

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The Abdorrahman Boroumand Foundation. This foundation, led by two Boroumand sisters, is trying to document human rights abuses in Iran.

The Iran Human Rights Documentation Center (IHDC). The center is run by persons mostly of Iranian origin and affiliated with Yale University’s Griffin Center for Health and Human Rights. It is documenting abuses in Iran, using contacts with Iranians in Iran.

The National Iranian American Council (NIAC). The organization’s objective is to build and expand networks of Iranian-American organizations, but it is generally considered an advocate of U.S. engagement with Tehran.

Amir Abbas Fakravar. A leader of the student dissidents who emerged in the July 1999 anti-regime student riots. A former medical student, he served time in Iranian prisons.

Iran of Tomorrow Movement. This group claims to have “resistance cells” inside Iran. It operates a 24-hour satellite TV station and a radio broadcast. A related movement, “XTV,” advocates the non-violent overthrow of the regime and is close to the Shah’s son.

Channel One TV/Radio Pedar. Run by Mr. Shahram Homayoun, a Los Angeles-based exile, this station broadcasts to Iran one hour each day.

Rang A Rang Television. Led by Davar Veiseh and based in Vienna, Virginia, advocates regime change through peaceful means.

No U.S. assistance has been provided to exile-run stations. However, the conference report on the FY2006 regular foreign aid appropriations, P.L. 109-102, states the sense of Congress that the Administration consider such financial support.

Human Rights and Religious Freedom

The State Department’s human rights report for 2005, released March 8, 2006, said Iran’s already poor human rights record “worsened” during the year. That report, and the 2005 State Department “religious freedom” report (released November 8, 2005), cite Iran for widespread human rights abuses (especially of the Baha’i faith), including summary executions, disappearances, torture, arbitrary arrest and detention, and discrimination against women. Specific trends include the following:

10 For text of both, see [http://www.state.gov/g/drl/rls/hrrpt/2005/61688.htm]; and [http://www.state.gov/g/drl/rls/irf/2005/51599.htm].
Since 2000, hardliners in the judiciary have closed hundreds of reformist newspapers, although many have tended to reopen under new names, and authorities have imprisoned or questioned several editors and even some members of the Majles. Iran also has blocked hundreds of pro-reform websites. On December 19, 2005, Ahmadinejad banned Western music from Iran’s state media, reviving a cultural decree from Ayatollah Khomeini’s rule.

The State Department reports that in January 2006, the regime forcibly repressed a strike by the 17,000-member Tehran bus drivers union who were demonstrating for the release of eight labor leaders who were incarcerated after a strike for higher wages. The leaders were released in March 2006. In May 2006, the regime arrested a prominent academic, Ramin Jahanbegloo, for alleged contacts with foreign governments.

There was an apparent beating death of a Canadian journalist of Iranian origin, Zahra Kazemi, while she was in Iranian detention. She had been detained in early July 2003 for filming outside Tehran’s Evin prison. An intelligence agent who allegedly conducted the beating was acquitted on July 25, 2004, prompting accusations that the investigation and trial were unfair. The prosecutor in her case, Saeed Mortazavi, allegedly responsible for numerous human rights abuses, was Iran’s representative to the inaugural meeting of the U.N. Human Rights Council.

Imprisoned journalist Akbar Ganji, who conducted hunger strikes to protest regime oppression, was released on schedule on March 18, 2006. He had been sentenced in 2001 to six years in prison for alleging high-level involvement in a series of murders of Iranian dissident intellectuals that the regime had blamed on “rogue agents” in the security apparatus. The Bush Administration issued a statement calling for his release on July 12, 2005. In the 109th Congress, H.Res. 414 expressed the sense of Congress that the United States and United Nations should condemn Iran’s imprisonment of him.

On the issue of women’s rights, the most widely reported issue is the requirement that women fully cover themselves in public, generally with a garment called a chador. There has been a progressive relaxation of enforcement of this rule, particularly during Khatemi’s presidency. To date, Ahmadinejad has not reversed that relaxation. However, in May 2006, the Majles passed a bill calling for increased public awareness of Islamic dress, an apparent attempt to persuade women not to violate the dress code or wear Western fashion. The bill did not, as some outside Iran intimated, contain any requirement or suggestion that members of Iran’s minority groups wear badges or distinctive clothing. In April 2006, Ahmadinejad directed that women be allowed to attend soccer matches, but the Supreme Leader reversed that move. Women can vote and run in parliamentary
elections, but their candidacies for president have routinely been barred by the Council of Guardians. Iranian women can drive, and many work outside the home, including owning and running their own businesses. Eleven out of the 290 Majles deputies are women.

- Each year since 1999, the State Department religious freedom report has named Iran as a “Country of Particular Concern” under the International Religious Freedom Act, and no significant improvement in Iran’s practices on this issue was noted in the International Religious Freedom report for 2005. (No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.)

- Iran is repeatedly cited for repression of the Baha’i community, which Iran’s Shiite Muslim clergy views as a heretical sect. In March 2006, U.N. Special Rapporteur on Freedom of Religion or Belief revealed the existence of an Iranian letter directing greater domestic surveillance of the Baha’is. In the 1990s, several Baha’is were executed for apostasy (Bahman Samandari in 1992; Musa Talibi in 1996; and Ruhollah Ruhani in 1998). Another, Dhabihullah Mahrami, was in custody since 1995 and died of unknown causes in prison in December 2005. In February 2000, Iran’s Supreme Court set aside the death sentences against three other Baha’is. Several congressional resolutions have condemned Iran’s treatment of the Baha’is, including S.Con.Res. 57 (106th Congress), which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000. In the 109th Congress, partly in response to a May 2006 wave of arrests of Baha’is in Shiraz, H.Con.Res. 415, requests the Administration emphasize that it regards Iran’s treatment of the Baha’is as a significant factor in U.S. Iran policy.

- On the treatment of Jews (along with Christians, a “recognized minority,” with one seat in the Majles), the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys somewhat more freedoms than Jewish communities in several other Muslim states. However, in practice the freedom of Iranian Jews to practice their religion is limited, and Iranian Jews remain reluctant to speak out for fear of reprisals. During 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews (mostly teachers, shopkeepers, and butchers) from the Shiraz area that it said were part of an “espionage ring” for Israel. After an April-June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000), receiving sentences ranging from 4 to 13 years. An appeals panel reduced the sentences, and all were released by April 2003.

- The State Department report notes other discrimination against Sufis and Sunni Muslims, although abuses against Sunnis could reflect that minority ethnicities, including Kurds, are Sunnis. In addition,
the regime has repressed recent unrest among the minority Azeri population, as well as Arabs in the southern province of Khuzestan.

- The June 6, 2006 (latest annual), State Department “Trafficking in Persons” report places Iran in Tier 3 (worst level) for failing to take action to prevent trafficking in persons. Girls purportedly are trafficked for sexual exploitation within Iran and from Iran to Turkey, Pakistan, and the Persian Gulf states.

Successive administrations have not generally considered Iran’s human rights record as a strategic threat to U.S. interests, but the Bush Administration has stepped up criticism of Iran’s human rights record. The Administration has established with European allies and Canada a “Human Rights Working Group” that coordinates a response to Iran’s human rights abuses. In a November 30, 2005, speech, Under Secretary of State Nicholas Burns said the United States is working with other countries for the release of all political prisoners, and he named several specific cases. A special U.N. Human Rights Commission monitoring mission for Iran, consisting of reports by a “Special Representative” on Iran’s human rights record, was conducted during 1984-2002. Iran has since agreed to “thematic” monitoring consisting of periodic U.N. investigations of specific aspects of Iran’s human rights record. Iran is a party to the two international human rights covenants.

Iran’s Strategic Capabilities and Weapons of Mass Destruction Programs

For the past two decades, the United States has sought to contain Iran’s weapons programs. The Administration’s “National Security Strategy” document released March 16, 2006, says the United States “may face no greater challenge from a single country than from Iran,” based on Iran’s growing weapons of mass destruction (WMD) programs and its expanding ability to exert influence in the region. 11

Conventional Military

Iran’s conventional armed forces are large and politically powerful but widely considered relatively combat ineffective against a well-trained military such as that of the United States. Iran’s forces are believed sufficiently effective to deter or fend off conventional threats from Iran’s relatively weak neighbors such as post-war Iraq, Turkmenistan, Azerbaijan, and Afghanistan but are largely lacking in logistical ability to project power much beyond Iran’s borders. Lacking such combat capability, Iran has avoided cause for conflict with its more militarily capable neighbors such as Turkey and Pakistan. Iran’s Revolutionary Guard Corps, which also controls the Basij volunteer militia that enforces adherence to Islamic customs, is generally loyal to the hardliners politically.

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11 See [http://www.whitehouse.gov/nsc/nss/2006/].
### Iran’s Conventional Forces

<table>
<thead>
<tr>
<th>Military Personnel</th>
<th>Tanks</th>
<th>Surface-Air Missiles</th>
<th>Combat Aircraft</th>
<th>Ships</th>
<th>Defense Budget (billions U.S.$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>540,600 (incl. 75 T-72)</td>
<td>1,693 (incl. I-Hawk) plus some Stinger</td>
<td>76 batteries (incl. I-Hawk) and 30 Su-24</td>
<td>280 (incl. 25 MiG-29 and 30 Su-24)</td>
<td>260 (incl. 10 Hudong, 40 Boghammer, 3 frigates) Also has 3 Kilo subs</td>
<td>4.4</td>
</tr>
</tbody>
</table>

On the other hand, Iran has acquired a structure for unconventional warfare that partly compensates for Iran’s conventional weaknesses. CENTCOM commander Gen. John Abizaid said in March 2006 that the Revolutionary Guard Navy, through its basing and force structure, is designed to give Iran a capability to “internationalize” any crisis in the Strait of Hormuz. Perhaps to demonstrate its ability at a time of tension over its nuclear program, Iran began major military exercises on August 20, 2006, expected to last five weeks. Such capabilities include:

- **Ship-launched cruise missiles.** Iran is able to arm its patrol boats with Chinese-made C-802 cruise missiles. Iran also has Chinese-supplied HY-2 Seerseekers emplaced along Iran’s coast. In early 2005, Commander of U.S. Central Command Gen. John Abizaid and head of the Defense Intelligence Agency Vice Admiral Lowell Jacoby both said Iran could use these capabilities to block the Strait of Hormuz at the entrance to the Persian Gulf, to attack Persian Gulf state oil export terminals, or to threaten shipping through that waterway. One possible tactic is to use suicide boat attacks or to lay mines in the Strait. In April 2006, Iran conducted naval maneuvers including test firings of what Iran claims are underwater torpedos that can avoid detection, presumably for use against U.S. ships in the Gulf, and a surface-to-sea radar-evading missile launched from helicopters or combat aircraft. U.S. military officials said the claims might be an exaggeration.

- **Midget Subs.** In addition to its Russian-made Kilo submarines, Iran is said to possess several midget submarines, possibly purchased assembled or in kit form from North Korea. Iran could try to use these vessels in any conflict, although some experts believe that U.S. naval forces could detect and counter this equipment, particularly the larger vessels, without substantial difficulty.

- **Anti-aircraft missile systems.** On December 3, 2005, Russia announced an agreement to sell Iran 29 anti-aircraft missile systems (Tor M1), worth about $700 million, and raising fears of a possible new round of Russian sales to Iran of major combat equipment.

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12 Jacoby testimony before the Senate Intelligence Committee. Feb. 16, 2005.
U.S. officials are pressing Russia not to proceed with the sale. A press report in late September 2006 said that Ukraine has agreed to sell Iran the Kolchuga radar system that can improve Iran’s detection of combat aircraft.

Weapons of Mass Destruction: Nuclear Program

Some observers believe that Iran and the international community have reached a crisis over Iran’s nuclear program; many outside experts and governments appear to agree that Iran is attempting to achieve a nuclear weapons capability. The International Atomic Energy Agency (IAEA), despite intensified inspections and other means of investigation since late 2002, says it cannot verify that Iran’s program is purely peaceful. Its reports on January 31, 2006, and February 27, 2006, said documents found by the IAEA show a possible “military nuclear dimension” to Iran’s program. Iranian leaders insist that Iran’s nuclear program is for electricity generation because its oil resources are finite and that enriching uranium to make nuclear fuel is allowed under the 1968 Nuclear Non-Proliferation Treaty, to which Iran is a party. On June 18, 2003, President Bush said that the United States would “not tolerate construction” of a nuclear weapon by Iran, and, on September 5, 2006, he said, “I am not going to allow [a nuclear-armed Iran].”

Despite Iran’s professions that WMD is inconsistent with its ideology, Iran’s factions appear to agree on the utility of a nuclear weapons capability as a means of ending its perceived historic vulnerability to U.S. domination and a symbol of Iran as a major nation. Others believe Iran sees nuclear weapons as instruments to dominate the Persian Gulf, and these experts believe an Iranian nuclear weapon would dramatically shift the balance of power in the Gulf/Middle East in Iran’s favor. There are also fears Iran might transfer WMD to extremist groups or countries, and Supreme Leader Khamene’i heightened concerns in April 2006 by saying that Iran might transfer nuclear technology to Sudan or other countries.

Although suspicions of Iran’s intentions are widely shared, there is disagreement over the urgency of the issue. In testimony before the Senate Intelligence Committee on February 16, 2005, DIA head Adm. Jacoby (see above) said that, “Unless constrained by a nuclear non-proliferation agreement, Tehran probably will have the ability to produce nuclear weapons early in the next decade.” In August 2005, press reports about an intelligence community estimate said the U.S. estimate of an Iranian nuclear weapons ranges from 6-10 years from then. Other experts focus on a so-

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13 For further information, see CRS Report RS21592, Iran’s Nuclear Program: Recent Developments, by Sharon Squassoni.


called “point of no return” — a point at which Iran has the expertise needed for a nuclear weapon — a point that could be reached within a year by some estimates, although some press reports say that is in doubt and that Iran’s program faces significant bottlenecks. Negroponte and other intelligence officials indicated that Iran’s April 11, 2006, announcement that it had enriched uranium (low enrichment, 3.5%) did not materially change their estimates of how close Iran might be to a nuclear weapons capability. On August 23, 2006, the House Intelligence Committee released a staff report saying that the U.S. intelligence community lacks “the ability to acquire essential information necessary to make judgments” about Iran’s nuclear program.

**European Diplomatic Efforts/”Paris Agreement.”** U.S., international, and IAEA attention to Iran’s nuclear program heightened in late 2002 after Iran confirmed PMOI allegations that it was building two facilities that could be used to produce fissile material useful for a nuclear weapon. The Natanz facility could produce enriched uranium, and the Arak facility reportedly is a heavy water production plant considered ideal for the production of plutonium. It was also revealed in 2003 that the founder of Pakistan’s nuclear weapons program, Abdul Qadeer (A.Q.) Khan, sold Iran and other countries (Libya, North Korea) nuclear technology and designs. At the same time, concerns continued over Russia’s work, under a January 1995 contract, on an $800 million nuclear power plant at Bushehr. Russia insisted that Iran sign an agreement under which Russia would provide reprocess the plant’s spent nuclear material; that agreement was signed on February 28, 2005. The plant is expected to become operational in late 2006, but that might depend on whether Iran reaches an overall nuclear agreement with the international community.

In 2003, France, Britain, and Germany (the “EU-3”) opened a separate diplomatic track to curb Iran’s program. On October 21, 2003, the EU-3 and Iran issued a joint statement in which Iran pledged, in return for peaceful nuclear technology, to (1) fully disclose its past nuclear activities, (2) to sign and ratify the “Additional Protocol” to the NPT (allowing for enhanced inspections), and (3) to suspend uranium enrichment activities. Iran signed the Additional Protocol on December 18, 2003, although the Majles has not yet ratified it. Iran abrogated the agreement after the IAEA reports of November 10, 2003, and February 24, 2004, stated that Iran had violated its NPT reporting obligations over an 18-year period.

In the face of the U.S. threat to push for Security Council action, the EU-3 and Iran resumed negotiations in an attempt to reach a more permanent agreement.

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16 (...continued)


18 Iran says it wants to build up to 20 more nuclear power plants, including possibly six by Russia. On December 5, 2005, Iran announced it is putting out for bid two 1,000 megawatt reactors and said an Iranian company would build a 300 megawatt reactor in Khuzestan Province.
Under the November 14, 2004, “Paris Agreement,” Iran agreed to suspend uranium enrichment (as of November 22, 2004) in exchange for renewed trade talks and other assistance.\(^{19}\) An IAEA board resolution (November 29, 2004) recognized the agreement. EU-3 — Iran negotiations on a permanent nuclear pact began on December 13, 2004, and related EU — Iran talks on a trade and cooperation accord began in January 2005. The nuclear talks also included “working groups” discussing “security” issues and economic cooperation. On March 11, 2005, the Bush Administration announced it would support — but not join — the EU-3 talks by offering to drop U.S. objections to Iran’s application to the World Trade Organization (which it did in May 2005) and to consider sales of U.S. civilian aircraft parts to Iran.

**Reference to the Security Council.** The Paris Agreement broke down just after the June 2005 Iranian presidential election. Iran rejected as insufficient the EU-3 “final settlement” plan (August 5, 2005) that offered to assist Iran with peaceful uses of nuclear energy (medicine, agriculture, and other uses) and provide limited security guarantees in exchange for Iran’s (1) permanently ending uranium enrichment; (2) dismantling its heavy water reactor at Arak; (3) agreement to no-notice nuclear inspections; and (4) pledge not to leave the NPT (which has a legal exit clause). On August 8, 2005, Iran broke the IAEA seals on its uranium “conversion” (one step before enrichment) facility at Esfahan and began conversion.

On September 24, 2005, the IAEA Board voted to declare Iran in non-compliance with the NPT and to refer the issue to the Security Council if Iran did not come back into compliance with the Paris Agreement.\(^{20}\) No time frame was set for the referral. Iran headed off immediate action by allowing new IAEA inspections of the military-related Parchin plant and by providing new information on a 1987 offer by the A.Q. Khan network for advanced centrifuge designs. Iran did not cease uranium conversion (and the IAEA said on April 28, 2006, that Iran has about 110 tons of converted uranium, enough for 10 nuclear weapons if enriched). The Administration supported a November 2005 Russian proposal to Iran to establish a facility in Russia at which Iranian uranium would be enriched, thereby enabling Iran to claim it had retained its right to enrich. Iran did not accept the proposal.

On January 3, 2006, Iran announced that it would resume uranium enrichment for “research” and subsequently broke IAEA seals at its uranium enrichment facilities. On February 4, 2006, the IAEA board voted 27-3\(^{21}\) for a resolution to “report” to the U.N. Security Council, after the IAEA reports steps required of Iran. After the vote, Iran ceased allowing voluntary IAEA inspections and it had the IAEA

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\(^{19}\) For text of the agreement, see [http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran14112004.shtml].

\(^{20}\) Voting in favor: United States, Australia, Britain, France, Germany, Canada, Argentina, Belgium, Ghana, Ecuador, Hungary, Italy, Netherlands, Poland, Portugal, Sweden, Slovakia, Japan, Peru, Singapore, South Korea, India. Against: Venezuela. Abstaining: Pakistan, Algeria, Yemen, Brazil, China, Mexico, Nigeria, Russia, South Africa, Sri Lanka, Tunisia, and Vietnam.

\(^{21}\) Voting no: Cuba, Syria, Venezuela. Abstaining: Algeria, Belarus, Indonesia, Libya, South Africa.
remove some monitoring equipment. The IAEA report of February 27, 2006 confirmed that Iran had begun enrichment activities (10 centrifuges) and the March 6-8, 2006, IAEA board meeting did not withhold referral of the case to the U.N. Security Council.

On March 29, 2006, the Council agreed on a Security Council presidential statement (lacking the mandatory force of a Council resolution) that was somewhat weaker than the United States had wanted. The statement set a 30-day time limit (April 28, 2006) for Iran to cease uranium enrichment and meet other IAEA requirements, after which time the Council will undertake further deliberations if Iran does not comply.\(^2\) The April 28 IAEA report (Gov/2006/27) said Iran had not complied with the March 29 Council presidential statement, and the issue returned to the Security Council, where the United States sought a formal resolution, under Chapter 7 (“international peace and security”) of the U.N. Charter, to mandate Iran’s compliance and authorize punitive measures, such as economic sanctions. However, Russia and China’s reservations blocked agreement and, on May 8, 2006, the Administration said it would support a renewed diplomatic overture by the EU-3. At the same time, the Administration rebuffed a letter from Ahmadinejad to President Bush\(^2\) as offering no new nuclear proposals.

**U.S. Offer to Join Talks and Future Steps.** In an effort to strengthen the EU-3 diplomacy, as well as to build support for international or multilateral sanctions should that be required, the Administration proposed on May 31, 2006, that the United States would join talks with Iran if Iran first suspends its uranium enrichment. Such talks would center on a package of incentives and possible sanctions that the United States, EU-3, Russia, and China agreed to in Vienna on June 1 and which EU representative Javier Solana formally presented to Iran on June 6, 2006. The possible sanctions reportedly were not presented to Iran in detail. Other sanctions and options are available on Iran, as discussed below. The impact of these and other sanctions and possible Iranian reactions are discussed later.

**Reported Incentives\(^2\)**

- Negotiations on an EU-Iran trade agreements and acceptance of Iran into the World Trade Organization.
- Easing of U.S. sanctions to permit sales to Iran of commercial aircraft or aircraft parts.
- Sale to Iran of a light-water nuclear reactor and guarantees of nuclear fuel.

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\(^2\) See [http://www.president.ir/eng/ahmadinejad/cronicnews/1385/02/19/index-e.htm#b3].

\(^2\) One source purports to have obtained the contents of the package from ABC News: [http://www.basicint.org/pubs/Notes/BN060609.htm]
• Possible light-water research reactors for medicine and agriculture applications.

• An “energy partnership” between Iran and the EU, including help for Iran to modernize its oil and gas sector and to build export pipelines.

• Support for a regional security forum for the Persian Gulf, and support for the objective of a WMD free zone for the Middle East.

• The possibility of eventually allowing Iran to resume uranium enrichment if it complies with all outstanding IAEA requirements and can prove that its nuclear program is purely for peaceful purposes.

Reported Sanctions

• Denial of visas for Iranians involved in Iran’s nuclear program and for high-ranking Iranian officials.

• Freeze on assets of Iranian officials or institutions.

• Freezing of Iran’s assets abroad and a ban on some financial transactions with Iran.

• Ban on sales of advanced technology to Iran.

• Ban on arms sales to Iran.

• Ban on sales to Iran of gasoline and other refined oil products.

• An end to support for Iran’s application to the WTO.

Resolution 1696 and Follow-Up. Iran said it would give a final response by August 22, far beyond the deadline for response set by the six powers (July 12). The six powers set that time frame so that Iran’s response could be discussed at the G-8 summit in St. Petersburg that begins July 15. The July 12 deadline expired, causing the six powers to issue a statement that they would return the issue to the U.N. Security Council. On July 31, 2006, the Security Council voted 14-1 (Qatar voting no) for U.N. Security Council Resolution 1696, giving Iran until August 31, 2006, to fulfill the longstanding IAEA nuclear demands (enrichment suspension, etc). The resolution is mandatory and, purportedly in deference to Russia and China, it was passed under Article 40 of the U.N. Charter, which makes compliance mandatory, but not under Article 41, which refers to economic sanctions, or Article 42, which would authorize military action for non-compliance. No specific sanctions were threatened in the resolution, but it calls on U.N. member states not to sell Iran certain technology that could be useful for WMD.

On August 22, 2006, Iran did, as planned, submit a 21-page formal response to the June 6 offer by the six powers, to the ambassadors of those countries in Tehran. The text of Iran’s response was not disclosed, but press reports said it offered serious
negotiations on a broader roadmap of engagement with the West — and sought provision of guarantees that the United States would not seek to change Iran’s regime — in exchange for possible acceptance of the international demands on the nuclear program. But Iran did not offer to suspend uranium enrichment in advance of negotiations. The response of the Bush Administration and of several EU countries, including France and Germany, was that the Iranian response “falls short” of the demands of Resolution 1696. Russia and China said the response could form the basis for further discussions. The positions of the six powers did not appear to change substantially following the expiration of the August 31 deadline set for Iran to suspend uranium enrichment by Resolution 1696. Iran did not comply with the demands of the Resolution, according to a report by the IAEA on August 31, 2006 (GOV/2006/53).

Subsequently, and with the backing of the P5+1, including the United States, chief EU negotiator Javier Solana has been negotiating with Iran to try arrange a temporary uranium enrichment suspension and negotiations on permanent curbs to Iran’s program. Some press reports say the Administration is considering softening its stand somewhat to include potentially joining any renewed talks with Iran if Iran suspends uranium enrichment temporarily. At the same time, the Administration and its partners are said to have agreed to a deadline of early October 2006 for Iran to suspend uranium enrichment and pave the way for permanent negotiations to begin. With that deadline approaching, some press reports said that Solana is close to a deal under which Iran would suspend uranium enrichment for 90 days to allow for progress in additional talks. However, the latest round of talks, in Berlin, concluded on September 28, 2006, without agreement, but with a pledge by both sides for further discussions. Solana-Larijani discussions by telephone since have not yielded a major breakthrough, and some reports say Iran has said no to suspending uranium enrichment.

**Chemical Weapons, Biological Weapons, and Missiles**

Official U.S. reports and testimony, particularly the semi-annual CIA reports to Congress on WMD acquisitions worldwide, continue to state that Iran is seeking a self-sufficient chemical weapons (CW) infrastructure, and that it “may have already” stockpiled blister, blood, choking, and nerve agents — and the bombs and shells to deliver them. This raises questions about Iran’s compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. Unclassified CIA reports to Congress in 2004 said Iran “probably maintain[s] an offensive [biological weapons] BW program ... and probably has the capability to produce at least small quantities of BW agents.” A *Jane’s Defence Weekly* report of October 26, 2005, said that Iran agreed in July 2005 to provide Syria with CW equipment to enable Syria to independently produce CW agent precursors.


Ballistic Missiles/Warheads. Largely with foreign help, Iran is becoming self sufficient in the production of ballistic missiles. DNI Negroponte testified on February 2, 2006, that Iran “already has the largest inventory of ballistic missiles in the Middle East, and Tehran views its ballistic missiles as an integral part of its strategy to deter or retaliate against forces in the region, including U.S. forces.” A New York Times report of May 22, 2006, said that the Bush Administration is seeking to establish a site in Europe, possibly Britain, to counter Iranian ballistic missiles.

- **Shahab-3.** Two of its first three tests of the 800-mile range Shahab-3 (July 1998, July 2000, and September 2000) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of tests in June 2003. Iran subsequently called the Shahab-3, which would be capable of hitting Israel, operational. Despite Iran’s claims, U.S. experts say the missile is not completely reliable, and Iran tested a purportedly more accurate version on August 12, 2004. Iran called the test successful, although some observers said Iran detonated the missile in mid-flight. On May 31, 2005, Iran announced it had successfully tested a solid-fuel version of the Shahab-3.

- **Warheads.** A Wall Street Journal report of September 14, 2005, said that U.S. intelligence believes Iran is working to adapt the Shahab-3 to deliver a nuclear warhead. Subsequent press reports say that U.S. intelligence captured an Iranian computer in mid-2004 showing plans to construct a nuclear warhead for the Shahab. Iran denied work on such a warhead, but the IAEA is seeking additional information from Iran on the material.

- **Shahab-4.** In October 2004, Iran announced it had succeeded in extending the range of the Shahab-3 to 1,200 miles, and it added in early November 2004 that it is capable of “mass producing” this longer-range missile, which Iran calls the Shahab-4. An Agence France Presse report of February 6, 2006, said an Iranian test of this missile in January 2006 was successful. If Iran’s claims are accurate, large portions of the Near East and Southeastern Europe would be in range, including U.S. bases in Turkey. On March 31, 2006, Iran claimed to have tested a missile, possibly a Shahab-4, that Iran says has multiple, separately targeted warheads.

- **BM-25.** On April 27, 2006, Israel’s military intelligence chief said that Iran had received a shipment of North Korean-supplied BM-25 missiles. The missile has a 1,550 mile range and is said to be capable of carrying nuclear warheads. The Washington Times appeared to corroborate this reporting in a July 6, 2006, story, which

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asserted that the North Korean-supplied missile is based on a Soviet-era “SS-N-6” missile.

- **ICBM.** Iran’s asserted progress on missiles would appear to reinforce the concerns of the U.S. intelligence community. In February 2005, DIA Director Jacoby testified that Iran might be capable of developing an intercontinental ballistic missile (3,000 mile range) by 2015, but that it was not yet clear whether Iran has decided to field such a system.

- **Other Missiles.** On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile (solid propellant), and Iran said in late September 2002 that it had begun production of the missile. Iran also possesses a few hundred short-range ballistic missiles, including the Shahab-1 (Scud-b), the Shahab-2 (Scud-C), and the Tondar-69 (CSS-8).

### Foreign Policy and Support for Terrorist Groups

Iran’s foreign policy is a product of the ideology of Iran’s Islamic revolution, blended with and sometimes tempered by long-standing national interests. The State Department report on international terrorism for 2005, released April 28, 2006, again stated (as it has for more than a decade) that Iran “remained the most active state sponsor of terrorism” in 2005, again attributing the terrorist activity to the Revolutionary Guard and the Intelligence Ministry.

**Relations With The Persian Gulf States.** During the 1980s and early 1990s, Iran sponsored Shiite Muslim extremist groups opposed to the Sunni Muslim-led monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). These activities appeared to represent an effort by Iran to “export” its Islamic revolution. However, Iran’s efforts were unsuccessful and caused the Gulf states to ally closely with the United States. During Khatemi’s presidency, Iran reduced support for Gulf Shiite dissident movements there. Some believe that Ahmadinejad, who is associated with the Revolutionary Guard and other hardline institutions, might shift back to a more confrontational stand toward the Gulf states, although such a policy shift is not evident, to date. The Gulf states nonetheless remain wary of Iran’s nuclear program, as discussed further in the “options” section below.

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Saudi Arabia. Many observers closely watch the relationship between Iran and Saudi Arabia as an indicator of Iran’s overall posture in the Gulf. During the 1980s, Iran sponsored disruptive demonstrations at annual Hajj pilgrimages in Mecca, some of which were violent, and Iran sponsored Saudi Shiite dissident movements. Iran and Saudi Arabia restored relations in December 1991 (after a four-year break), and progressed to high-level contacts during Khatemi’s presidency. Khatemi visited Saudi Arabia in 1999 and 2002, suggesting that Saudi Arabia had moved beyond the issue of the June 25, 1996, Khobar Towers housing complex bombing, which killed 19 U.S. airmen, and was believed orchestrated by Iranian agents working with a Saudi Shiite faction (Saudi Hezbollah).33

In April 1992, Iran expelled UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE has sought to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. The UAE has not pressed the issue vigorously in recent years, although it insists the islands dispute be kept on the agenda of the U.N. Security Council (which it has been since December 1971). The United States, which is concerned about Iran’s military control over the islands, supports UAE proposals but takes no formal position on sovereignty.

Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (called South Pars on Iran’s side) and through which Qatar earns large revenues for natural gas exports. Qatar’s fears were heightened on April 26, 2004, when Iran’s deputy Oil Minister said that Qatar is probably producing more gas than “her right share” from the field and that Iran “will not allow” its wealth to be used by others. Qatar’s purported fear of Iranian retaliation might explain why Qatar voted “no” on Resolution 1696.

In 1981 and again in 1996, Bahrain officially and publicly accused Iran of supporting Bahraini Shiite dissidents (the Islamic Front for the Liberation of Bahrain, Bahrain-Hezbollah, and other Bahraini dissident groups) in efforts to overthrow the ruling Al Khalifa

33 Walsh, Elsa. “Annals of Politics: Louis Freeh’s Last Case.” The New Yorker, May 14, 2001. The June 21, 2001 federal grand jury indictments of 14 suspects (13 Saudis and a Lebanese citizen) in the Khobar bombing indicate that Iranian agents may have been involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. The 9/11 Commission final report asserts that Al Qaeda might have had some as yet undetermined involvement in the Khobar Towers attacks.
family. Bahrain is about 65% Shiite, but its government is dominated by the Sunni Muslim Al Khalifa family.

**Iranian Policy in Iraq.** The U.S. military ousting of Saddam Hussein appears to have benefitted Iran strategically. The main thrust of Iran’s strategy in post-Saddam Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure political and electoral Shiite dominance of post-Saddam Iraq. However, U.S. officials believe that, as part of its effort to build influence in Iraq, Iran is providing arms and financing to Shiite militias fielded not only by its long-standing Shiite allies but also by the radical cleric Moqtada Al Sadr — militias that are believed involved in sectarian violence. Secretary of Defense Rumsfeld said on March 7, 2006, that Iran had sent members of its Revolutionary Guard “Qods Force” (its export-of-the-revolution unit) into Iraq to assist militant forces, presumably those of Sadr, a theme reiterated by senior U.S. commanders in August and September 2006. In September 2006, Prime Minister Maliki visited Iran and reiterated pledges of security and economic cooperation.

In an effort to limit opportunities for Iran to act against U.S. interests in Iraq, in November 2005 U.S. Ambassador to Iraq Zalmay Khalilzad said he had received approval from President Bush to begin a diplomatic dialogue with Iranian officials on the issue of Iraqi stability and Iran’s aid to Shiite militias. Even though, on March 17, 2006, Iranian officials publicly accepted talks on Iraq, no talks have taken place. Ahmadinejad said on April 25, 2006, that there was no need for U.S.-Iran talks now that an Iraqi government was formed. No such talks have been held.

**Supporting Palestinian Militant Groups.** Iran’s support for Palestinian militant groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct Israeli-Palestinian peace prospects. Ahmadinejad’s various statements on Israel were discussed above. However, other Iranian leaders have made similar statements in the past. In the 1990s, Khamene’i called Israel a “cancerous tumor” and made other statements suggesting that he seeks Israel’s destruction. In December 2001, Rafsanjani said that it would take only one Iranian nuclear bomb to destroy Israel, whereas a similar strike against Iran by Israel would have far less impact because Iran’s population is large. Iran has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002).

On the other hand, during his presidency, Khatemi generally refrained from inflammatory statements against Israel and even conversed with Israel’s president at the 2005 funeral of Pope John Paul II. The Iranian Foreign Ministry, considered a bastion of moderates, has repeatedly stated that Iran’s official position is that it would not seek to block any final Israeli-Palestinian settlement but that the peace process is too weighted toward Israel to result in a fair settlement for Palestinians.

The State Department reports on terrorism for 2005 (released on April 28, 2006) accuse Iran of providing “extensive” funding, weapons, and training to Hamas,  

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34 This issue is covered in greater depth in CRS Report RS22323, *Iran’s Influence in Iraq*, by Kenneth Katzman.
Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyr’s Brigades, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC). All are named as foreign terrorist organizations (FTO) by the State Department for their use of violence against Israelis and efforts to undermine the Arab-Israeli peace process. Of these groups, PIJ is closest politically to Iran. State Department terrorism reports since 2002 have said that Iran, possibly via Lebanese Hezbollah, has been encouraging coordination among Palestinian terrorist groups, particularly Hamas and PIJ, since the September 2000 Palestinian uprising.

Some see Iran’s policy further strengthened by Hamas’ victory in the January 25, 2006, Palestinian legislative elections, although Hamas activists say they are not politically close to Iran because Iran is mostly Shiite, while Hamas members are Sunni Muslims. Hamas was reputed to receive about 10% of its budget in the early 1990s from Iran, although since then Hamas has developed many other sources of funding from wealthy Persian Gulf donors and supporters in Europe and elsewhere. Others believe that Hamas now has a stake in running the Palestinian Authority and is less likely to accept advice or influence from Iran if such advice conflicts with Palestinian interests. On April 16, 2006, at a conference in Tehran of Palestinian militant leaders, Iran pledged $50 million to the Hamas-led government to help it weather aid reductions from the United States and Europe. Some pro-U.S. Arab states (Qatar, Saudi Arabia, UAE, and Kuwait) have pledged it similar amounts since Hamas took over governance.

**Lebanese Hezbollah.** Whether or not Iran instigated Lebanese Hezbollah to provoke the July-August 2006 crisis with Israel, Iran has long been a major supplier and benefactor of Hezbollah. Iranian-supplied rockets were fired by Hezbollah on Israel’s northern towns during the fighting. As part of a package of aid to Hezbollah said to exceed $100 million per year, reported Iranian shipments to Hezbollah over the past five years have included the “Fajr” (dawn) and Khaybar series of rockets that were fired at the Israeli city of Haifa (30 miles from the border), and over 10,000 Katyusha rockets that were fired at cities within 20 miles of the Lebanese border.

Iran also supplied Hezbollah with an unmanned aerial vehicle (UAV), the *Mirsad*, that Hezbollah briefly flew over the Israel-Lebanon border on November 7, 2004, and April 11, 2005; at least three were shot down by Israel during the conflict. On July 14, 2006, Hezbollah apparently hit an Israeli warship with a C-802 sea-skimming missile probably provided by Iran. (See above for information on Iran’s acquisition of that weapon from China.) Iran also purportedly provided advice during the conflict; about 50 Revolutionary Guards were in Lebanon (down from about 2,000 when Hezbollah was formed), according to a *Washington Post* report of April 13, 2005) when the conflict began; that number might have increased during the conflict to help Hezbollah operate the Iranian-supplied weaponry.

Iran has moved to support Hezbollah after the conflict, in which Iran said Hezbollah was victorious. One press report said Iran is making $150 million available for Hezbollah to distribute to Lebanese citizens (mostly Shiite supporters

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of Hezbollah) whose homes were damaged in the Israeli military campaign. A State Department counter-terrorism official testified before the House International Relations Committee on September 28, 2006, that Iranian military support to Hezbollah has continued since the August 14 ceasefire, which took place in accordance with U.N. Security Council Resolution 1701 (July 31, 2006). Iran’s strategy appears to be to assist Hezbollah’s efforts to benefit politically from the July-August 2006 conflict, possibly including overturning the dominance of the Lebanese government by anti-Syrian factions.

Iran has maintained a close relationship with Hezbollah since Hezbollah’s inception in 1982. Hezbollah was formed by Lebanese Shiite clerics sympathetic to Iran’s Islamic revolution and responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s. Hezbollah’s attacks on Israeli forces in southern Lebanon contributed to an Israeli withdrawal in May 2000, but, despite United Nations certification of Israel’s withdrawal, Hezbollah maintained military forces along the border. Hezbollah continued to remain armed and outside Lebanese government control, despite U.N. Security Council Resolution 1559 (September 2, 2004) that required the militia’s dismantlement. In refusing to disarm, Hezbollah says it was resisting Israeli occupation of small tracts of Lebanese territory (Shebaa Farms).

Neither Israel nor the United States have opposed Hezbollah’s growing participation in peaceful Lebanese politics, but U.S. assessments of Hezbollah have shifted back to a more negative view in light of Hezbollah’s provocation of Israel. In March 2005, President Bush indicated, in comments to journalists in March 2005, that the United States might accept Hezbollah as a legitimate political force in Lebanon if it disarms. In the Lebanese parliamentary elections of May - June 2005, Hezbollah expanded its presence in the Lebanese parliament; it now holds 14 seats in the 128-seat parliament. On the strength of this showing, two Hezbollah members were given cabinet seats, positioning Hezbollah to exert greater influence on Lebanese government decisions. As a matter of policy, the United States does not meet with any Hezbollah members. Hezbollah is a designated FTO, but that designation bars financial transactions by the group and does not specifically ban meeting with members of the group.


39 Hezbollah is believed responsible for the October 1983 bombing of the U.S. Marine barracks in Beirut, as well as attacks on U.S. Embassy Beirut facilities in April 1983 and September 1984, and for the hijacking of TWA Flight 847 in June 1985 in which Navy diver Robert Stetham was killed. Its last known terrorist attack outside Lebanon was the July 18, 1994, bombing of a Jewish community center in Buenos Aires, which killed 85. On Mar. 11, 2003, an Argentinian judge issued arrest warrants for four Iranian diplomats, including former Intelligence Minister Ali Fallahian, for alleged complicity in the attack. Hezbollah is also believed to have committed the Mar. 17, 1992, bombing of Israel’s embassy in that city.
Prior to the conflict, in the 109th Congress, two resolutions (H.Res. 101 and S.Res. 82) have passed their respective chambers. They urge the EU to classify Hezbollah as a terrorist organization; S.Res. 82 calls on Hezbollah to disband its militia as called for in U.N. Security Council Resolution 1559 (September 2, 2004). For legislation related to the confrontation, see CRS Report RL33566: Lebanon: The Israel-Hamas-Hezbollah Conflict.

Central Asia and the Caspian. Iran’s policy in Central Asia has thus far emphasized Iran’s rights to Caspian Sea resources, particularly against Azerbaijan. That country’s population, like Iran’s, is mostly Shiite Muslim, but Azerbaijan is ruled by secular leaders. In addition, Azerbaijan is ethnically Turkic, and Iran fears that Azerbaijan nationalists might stoke separatism among Iran’s large Azeri Turkic population, which has demonstrated some unrest in 2006. In July 2001, Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian Iran considers its own. The United States called that action provocative, and it offered new border security aid and increased political support to Azerbaijan. The United States successfully backed construction of the Baku-Tblisi-Ceyhan oil pipeline, intended in part to provide alternatives to Iranian oil. Iran was purportedly a main topic of discussion during a White House meeting between Azerbaijan President Ilham Aliyev and President Bush on April 28, 2006. Along with India and Pakistan, Iran has been given observer status at the Central Asian security grouping called the Shanghai Cooperation Organization (SCO), which contains Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan.

Afghanistan.40 Since the fall of the Taliban, Iran has moved to restore some of its Iran’s traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate. It aided Northern Alliance figures that were prominent in the post-Taliban governing coalition, and Iranian companies have been extensively involved in road building and other reconstruction projects in western Afghanistan. Since 2004, Iran’s influence has waned somewhat as its allies, mostly Persian-speaking Afghan minority factions still referred to as the “Northern Alliance,” have been marginalized in Afghan politics. However, a CRS visit to Afghanistan in March 2006 noted Iranian-funded Shiite theological seminaries being built in Kabul, perhaps an indication of Iran’s continuing efforts to support Afghanistan’s Shiite minority. Iran is said to fear the continuing presence of the about 21,000 U.S. troops in Afghanistan, and Iran has objected to the U.S. use of Shindand air base in western Afghanistan, asserting that it is being used to conduct surveillance on Iran. U.S. aircraft began using the base in September 2004 after the downfall of the pro-Iranian governor of Herat Province, Ismail Khan.

Iran long opposed the regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed nine Iranian diplomats based in northern Afghanistan, and Iran provided military aid to the Northern Alliance factions. Iran, along with the

United States, Russia, and the countries bordering Afghanistan, attended U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the conflict in Afghanistan. During the major combat phase of the post-September 11 U.S.-led war in Afghanistan, Iran offered search and rescue of any downed service-persons and the trans-shipment to Afghanistan of humanitarian assistance. In March 2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban Afghan faction leader. Iran froze Hikmatyar’s assets in Iran (January 2005).

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

The 9/11 Commission report said several of the September 11 hijackers and other plotters, possibly with official help, might have transited Iran, but the report does not assert that the Iranian government cooperated with or knew about the plot. Another bin Laden ally, Abu Musab al-Zarqawi, killed by U.S. forces in Iraq on June 7, 2006, reportedly transited Iran after the September 11 attacks and took root in Iraq, becoming a major insurgent leader there.

U.S. Policy Responses and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations. On November 4, 1979, radical “students” seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan’s inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980 and the two countries have had only limited official contact since.46 The United States tilted markedly toward Iraq in the 1980-1988 Iran-Iraq war, including U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq47 and, during 1987-1988, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks. In one battle on April 18, 1988, Iran lost about a quarter of its larger naval ships in a one-day engagement with the U.S. Navy, including one frigate sunk and another badly damaged.

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

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. The election of Khatemi in May 1997 precipitated a U.S. shift toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to “people-to-people” U.S.-Iran exchanges as part of his push for “dialogue of civilizations, but he 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, in a March 17, 2000, speech, acknowledged past U.S. meddling in Iran, announcing some minor easing of the U.S. trade ban with Iran, and promised to try to resolve outstanding claims disputes. In September 2000 U.N. “Millennium Summit” meetings, Albright and President Clinton sent a positive signal to Iran by attending Khatemi’s speeches.

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

Bush Administration Policy and Options

The Bush Administration generally continued the main thrust of Clinton Administration efforts to try to limit Iran’s strategic capabilities through international diplomacy and sanctions, although some Bush Administration officials prefer and have purportedly sought to emphasize a longer term strategy of regime change. As of mid-2006, the pressing U.S. interest in curbing Iran’s nuclear program has led to a de-emphasis of regime change in favor of international diplomacy and a revival of the option of direct engagement with Iran. These differing policy trends and options are discussed in greater detail below.

Regime Change. This option appears to have receded in favor of multilateral diplomacy on the nuclear issue, but it remains an active component of U.S. policy. Some high-ranking U.S. officials appear to believe that only an outright change of regime would permanently reduce the threat posed by Iran. There has been some support in the United States for regime change since the 1979 Islamic revolution; the United States provided some funding to anti-regime groups, mainly pro-monarchists, during the 1980s. The Administration’s attraction to this option became apparent after the September 11, 2001, attacks, when President Bush’s described Iran as part of an “axis of evil” in his January 2002 State of the Union message. President Bush’s second inaugural address (January 20, 2005) and his State of the Union messages of February 2, 2005, and January 31, 2006, suggested a clear preference for a change of regime by stating, in the latter speech, that “...our nation hopes one day to be the closest of friends with a free and democratic Iran.”

Recent indications of affinity for this option include increased public criticism of the regime’s human rights record — for example supporting General Assembly resolutions condemning Iran’s human rights record — as well as the funding of Iranian pro-democracy activists in Iran and the expansion of U.S. Iran-related diplomatic activity. In March 8, 2006, testimony to the House International Relations Committee, Undersecretary of State Nicholas Burns confirmed press reports that the United States would increased the presence of Persian-speaking U.S. diplomats in U.S. diplomatic missions around Iran, in part to help identify and facilitate Iranian participate in U.S. democracy-promotion programs. The Iran unit at the U.S. consulate in Dubai is being expanded, according to Burns. New Persian-speaking Iran positions will be added at U.S. diplomatic facilities in Baku, Azerbaijan; Istanbul, Turkey; Frankfurt, Germany; London; and Ashkabad, Turkemenistan, all of which have large expatriate Iranian populations and/or proximity to Iran. An enlarged (six-person) “Office of Iran Affairs” has been formed at State Department,

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

and it is reportedly engaging in contacts with U.S.-based exile groups such as those discussed earlier.  

Many question the prospects of U.S.-led Iran regime change, short of all-out-U.S. military invasion, because of the weakness of opposition groups committed to outright regime overthrow. Those groups are discussed in the above section on regime stability. Providing overt or covert support to anti-regime organizations, in the view of many experts, would not make them materially more viable or attractive to Iranians. Others argue that reformist groups such as students, women, intellectuals, and others might be able to galvanize regime change unexpectedly.

**Congress and Regime Change.** The State Department has used funds provided in recent appropriations to support pro-democracy activists. The funds represent congressional sentiment for efforts to change Iran’s regime. The policy is discussed in the State Department report “Supporting Human Rights and Democracy: U.S. Record 2005-2006,” released April 6, 2006. Iran asserts that such steps represent a violation of the 1981 “Algiers Accords” that settled the Iran hostage crisis and provide for non-interference in each others’ internal affairs. The following have been appropriated.

- The FY2004 foreign operations appropriation (P.L. 108-199) earmarked “notwithstanding any other provision of law” up to $1.5 million for “making grants to educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran.” The State Department Bureau of Democracy and Labor (DRL) gave $1 million of those funds to the IHDC organization, mentioned earlier. The remaining $500,000 was distributed through the National Endowment for Democracy (NED).

- The conference report on the FY2005 foreign aid appropriations (P.L. 108-447) provided a further $3 million for these efforts. The State Department put out a solicitation for proposals for similar projects to be funded in 2005. The winning grantees were not announced by DRL to protect the identities of the grantees, according to U.S. diplomats. DRL had said that priority areas were political party development, media development, labor rights, civil society promotion, and promotion of respect for human rights.

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

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

Briefing by DRL representatives for congressional staff, May 9, 2005.
CRS-31

conference report (H.Rept. 109-265). The funds are to be drawn from a “Democracy Fund” as well as from the Middle East Partnership Initiative (MEPI).

- On February 16, 2006, the Administration requested $75 million for democracy promotion in Iran as part of a supplemental FY2006 appropriation. In congressional action, the FY2006 supplemental appropriation (H.R. 4939, P.L. 109-234) provided a total of $66.1 million, broken down as follows: $20 million for democracy programs ($5 million more than requested); $5 million for public diplomacy directed at the Iranian population (the amount requested); $5 million for cultural exchanges (the amount requested); and $36.1 million for Voice of America-TV and Radio Farda broadcasting ($13.9 million less than requested). In early September 2006, the Administration said it wanted to use the $5 million in cultural exchange funds to invite about 200 young Iranian professionals and foreign language teachers.

- The broadcasting funds are to be provided through the Broadcasting Board of Governors, an apparent rebuff to the idea of funding Iranian exile broadcasts. Broadcasting to Iran began under Radio Free Europe/Radio Liberty (RFE/RL), in partnership with the VOA, in October 1998. It was renamed Radio Farda (“Tomorrow” in Farsi) in December 2002. It now broadcasts 24 hours per day and now costs about $7 million per year. VOA Persian language services (radio and TV) also operate to Iran at a combined cost of about $10 million per year. VOA-TV began on July 3, 2003, and, as of early 2005, broadcasts to Iran three hours a day, up from 30 minutes a day previously).

- No funds for this purpose were requested for FY2007, and FY2007 foreign aid appropriations legislation (H.R. 5522) contains no new funds for it.

**H.R. 282, S. 333, and H.R. 6198.** Legislation in the 109th Congress exemplifies the preference of some Members for regime change in Iran by authorizing funding for democracy promotion, among other provisions. In the 109th Congress, H.R. 282, introduced by Representative Ros-Lehtinen, passed the House on April 26, 2006, by a vote of 397-21. A companion, S. 333, was introduced by Senator Santorum, although a version of that bill, introduced as an amendment to the FY2007 defense authorization bill, was defeated on June 14, 2006. H.R. 282 passed the House even though Undersecretary of State Burns testified on March 8, 2006, that the Administration opposed the economic sanctions-related sections of it as likely to cause tensions with U.S. allies. The Administration supported the democracy-promotion sections of these bills, which were included in H.R. 6198, which was

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53 The service began when Congress funded it at $4 million in the FY1998 Commerce/State/Justice appropriation (P.L. 105-119). It was to be called Radio Free Iran but was never formally given that name by RFE/RL.
introduced on September 27, 2006, passed by both chambers, and signed September 30, 2006 (P.L. 109-293). The bill does not authorize a specific dollar amount for Iran democracy promotion.

**Engagement?** The Bush Administration has pursued some direct engagement with Iran, and, with the U.S. offer to conditionally join nuclear talks with Iran, the option is being exercised to an extent. As part of the nuclear-related U.S. shift on direct talks with Iran, the Administration is indicating that it considers Iran a great nation and respects its history; such themes were prominent in speeches by President Bush at the Merchant Marine Academy on June 19, 2006, and his September 18, 2006, speech to the U.N. General Assembly. For now, the Administration has ruled out U.S.-Iran bilateral talks on all issues of U.S. concern, and no U.S. official raised the issue of U.S.-Iran talks to resolve the July-August 2006 Hezbollah-Israel crisis.

The May 2006 U.S. offer to join the nuclear talks came after some, including former Clinton Administration foreign policy officials Samuel Berger and Madeleine Albright, and former Secretary of State Henry Kissinger, said that the United States should exhaust all possible options to curb Iran’s nuclear program, including dialogue with Iran. Others said that the decision to offer to enter the nuclear talks came after Administration advocates of regime change and other harder line approaches were persuaded that the United States needed to garner international support on Iran by demonstrating it is willing to fully exhaust all options for a peaceful resolution of the nuclear issue. An amendment by Senator Biden to the FY2007 defense authorization bill (S. 2766), adopted June 14, 2006, supported the Administration’s May 2006 decision to join talks with Iran if it suspends uranium enrichment.

No direct U.S.-Iran talks have taken place since May 2003, when the United States broke off a dialogue with Iran following the May 12, 2003, terrorist bombing in Riyadh. At that time, the United States and Iran publicly acknowledged that they were conducting direct talks in Geneva on Afghanistan and Iraq, the first confirmed direct dialogue between the two countries since the 1979 revolution. However, U.S. officials rebuffed a reported overture from Iran just before the Riyadh bombing to negotiate all outstanding U.S.-Iran issues. The United States briefly resumed some contacts with Iran in December 2003 to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, including a reported offer to send a high-level delegation to Iran. However, Iran rebuffed that offer.

**Military Action?** As concerns over Iran’s nuclear program have grown, public discussion of a military option against Iran’s nuclear facilities has increased. President Bush has maintained that “all options are on the table.” A U.S. ground invasion to remove Iran’s regime does not appear to be under serious consideration within the Administration. Most experts believe U.S. forces are spread too thin, including about 140,000 deployed in Iraq, to undertake such action, and that U.S. forces would be greeted with hostility by most Iranians.

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Some experts believe that limited military action, such as air or missile strikes against suspected nuclear sites should be considered. Most experts believe the United States could carry out such strikes with cruise missiles and combat aircraft and bombers from bases in or within range of the Gulf and from aircraft carriers. A January 2005 *New Yorker* article by Seymour Hersh asserts that President Bush has authorized covert special forces missions into Iran to assess potential nuclear-related targets for a U.S. air strike. U.S. allies in Europe, not to mention Russia, China, and others, have expressed strong opposition to any military action, at least while diplomatic options remain active.

Experts differ on the effectiveness of striking Iran’s nuclear facilities. Some argue that doing so could set back Iran’s nuclear program because there are only a limited number of key targets, and these targets are known to U.S. planners and could be struck, even those that are hardened or buried. It could also be argued that the United States could reduce Iran’s potential for military or unconventional retaliation by striking not only nuclear facilities but also Iran’s conventional military infrastructure, particularly the small ships and coastal missiles Iran has in and around the Strait of Hormuz.

Opponents of a strike believe any benefits would be minor, or only temporary, and that the costs of a strike are too high. Some question whether the United States is aware of or militarily able to reach all relevant sites; one former Air Force planner estimates that up to 400 targets would need to be struck, including at least 75 that would require penetrating munitions. Others argue that Iran might retaliate through terrorism or other means, such as shutting down its own oil exports. Some believe that a U.S. strike would cause the Iranian public to rally around Iran’s regime, setting back U.S. efforts to promote change within Iran.

Expressing particular fear that Iran might achieve a nuclear weapons capability, some Israeli officials, including former Defense Minister Shaul Mofaz (October 2004), have refused to rule out the possibility that Israel might strike Iran’s nuclear infrastructure. However, several experts doubt that Israel has the capabilities, such as sufficient aerial refueling capacity, that could make such action effective.

A decision to take military action might raise the question of presidential authorities and congressional consultation. H.Con.Res. 391, introduced by Representative Peter DeFazio on April 26, 2006, calls on the President to not initiate military action against Iran without first obtaining authorization from Congress.

**Containment?** Some, such as authors of a National Defense University study, believe that an Iranian nuclear weapons capability could be contained, for example by U.S. conventional capabilities and regional alliances. Some experts have called for U.S. naval forces in the Gulf to institute searches of Iran-bound vessels suspected of containing WMD-related technology, or to place nuclear-armed weapons aboard

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U.S. ships operating in the Gulf as a signal of strength to Iran. The Administration has discussed with its allies some measures that could be used to block North Korea’s technology exports and alleged drug smuggling,\(^{58}\) an initiative that has won allied support. In contrast, some officials of allied governments, including Britain, have called for greater cooperation with Iran to curb the movement of smugglers and terrorists across the Persian Gulf.\(^{59}\)

In mid-2006, the Administration took steps to shore up nervous U.S. allies in the Persian Gulf region. Visits to the Gulf states (Saudi Arabia, Kuwait, Bahrain, UAE, Qatar, and Oman) by U.S. officials have focused on renewing long-discussed joint efforts to develop missile defense and anti-WMD capabilities. These efforts might be intended, at least in part, to prevent the Gulf states from accommodating Iran and to convince them that the United States can protect them from Iran. On the other hand, some Gulf states might avoid joining a U.S.-led front against Iran.

**International Sanctions?** Regime change and military action appear to be longer term options, but the more immediate question is whether, and if so what, international sanctions might be imposed on Iran by the international community for non-compliance with Resolution 1696. In order to gain international support to pressure Iran on its nuclear program, the Administration has indicated it would avoid imposing sanctions that would hurt Iran’s people. Iran, for its part, has indirectly threatened to reduce its oil exportation if any international sanctions are imposed on it, although some Iranian officials now downplay that possibility. Some experts believe Iran’s economy might collapse if it took such a step. Iran has also threatened to withdraw from the NPT entirely if it is sanctioned.

The following represent sanctions that the Security Council might impose - some have already been threatened. Administration officials say these sanctions might also be considered by a “coalition” of countries, outside Security Council authorization, if the Security Council does not act. Some are proposed in a Senate resolution (S.Res. 351) introduced by Senator Evan Bayh on January 20, 2006. A House resolution (H.Con.Res. 341) calling on the international community to impose U.N. economic sanctions on Iran because of its nuclear activity passed the House on February 16, 2006.

- **Mandating Reductions in Diplomatic Exchanges with Iran or Limiting Travel by Iranian Officials.** Similar restrictions were imposed on the Taliban government of Afghanistan in 1999 in response to its harboring of Al Qaeda leadership. Another possibility is limitations on sports or cultural exchanges with Iran, such as Iran’s participation in the World Cup soccer tournament or the Olympics. However, many experts oppose using sporting events to accomplish political goals.

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- **Banning International Flights to and from Iran.** This sanction was imposed on Libya in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103.

- **A Ban on Exports to Iran of Refined Oil Products or of Other Products.** Some countries that supply such goods and services to Iran might oppose this sanction. The gas exports ban, a major feature of the Bayh resolution (S.Res. 351), would almost certainly hurt Iran’s economy because Iran lacks refinery capacity to meet demand and must import gasoline.

- **Financial Sanctions, Such as a Freeze on Iran’s Financial Assets Abroad or on the Assets of Designated Iranian Officials, or Limiting Lending to Iran by International Financial Institutions.** Anticipating an asset freeze, Iran announced on January 20, 2006, that it had already begun moving some assets in Europe back to Iran, although Iran later backtracked on that announcement. Some U.S. allies that conduct extensive trade with Iran, including Japan, are said to oppose this sanction, although recent reports say Japan is likely to go along if the United States insists.

- **Imposing a Worldwide Ban on Sales of Arms to Iran.** Such a sanction could incur Security Council opposition from Russia and China, which have been Iran’s key arms suppliers in recent years.

- **Imposing an Intrusive U.N.-led WMD Inspections Regime.** The objective of such an inspections program could be to enforce a Security Council decision to halt uranium enrichment, although Iran is likely to resist such a program and reduce its effectiveness.

- **Imposing an International Ban on Purchases of Iranian Oil or Other Trade/Ban on International Investment in Iran's Energy Sector.** These are widely considered the most sweeping of sanctions that might be imposed, and would likely be considered in the Security Council only if other sanctions are imposed but fail. However, the sanction is unlikely to be imposed because world oil prices remain near $60 per barrel.

### U.S. Sanctions

Any international or multilateral sanctions would add to the wide range of U.S. sanctions in place since the November 4, 1979, seizure of the U.S. hostages in Tehran. Some experts believe that U.S. sanctions have slowed Iran’s economy,

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60 On Nov. 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.
forcing it to curb spending on weapons purchases, but others believe that because the sanctions are not multilateral, the U.S. sanctions have had only marginal effect.\textsuperscript{61}

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

- The terrorism list designation bans direct U.S. financial assistance (Foreign Assistance Act, FAA) and arms sales (Arms Export Control Act), restricts sales of U.S. dual use items (Export Administration Act), and requires the United States to vote to oppose multilateral lending to the designated countries (Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) without providing for a waiver.

- Section 307 of the FAA (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. No waiver is provided for.

- Under the Anti-Terrorism and Effective Death Penalty Act, the President is required to withhold U.S. foreign assistance to any country that provides to a terrorism list country foreign assistance (Section 325) or sells arms to one (Section 326). Waivers are provided for.

- U.S. regulations do not bar disaster relief and the United States donated $125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another $350,000 worth of aid to the victims of a June 22, 2002 earthquake. (The World Bank provided some earthquake related lending as well.) The United States provided $5.7 million in assistance (out of total governmental pledges of about $32 million, of which $17 million have been remitted) to the victims of the December 2003 earthquake in Bam, Iran, which killed as many as 40,000 people and destroyed 90% of Bam’s buildings. The United States flew in 68,000 kilograms of supplies to Bam, flown in by U.S. military flights.

**Proliferation Sanctions.** Iran is prevented from receiving technology from the United States under relevant anti-proliferation laws,\textsuperscript{62} but several proliferation 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 its control had not
transferred any WMD or missile technology to Iran within the year prior. The
provision contains certain exceptions to ensure the safety of astronauts and for certain
space station hardware. The provision could complicate U.S. efforts to keep U.S.
astronauts on the station beyond April 2006, when Russia plans to start charging the
United States for transporting them on its Soyuz spacecraft. In February 2005, the
Bush Administration proposed an amendment to the INA that would allow continued
U.S. access to the station. The House version of S. 1713 took that step and extended
INA sanctions provisions to Syria; it was accepted by the Senate (P.L. 109-112,
November 22, 2005). The law is now called the Iran-Syria Non-Proliferation Act
(ISNA). A bill to sanction any U.S. dealings with companies identified as violating
the ISNA (S. 2279) was introduced February 14, 2006. A law enacted in the 109th
Congress to extend the Iran-Libya Sanctions Act (ILSA), H.R. 6198 (P.L. 109-293),
makes WMD and advanced conventional weapons exports to Iran sanctionable (see
further below).

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

- In May 2003, the Administration sanctioned a Chinese industrial
  entity, Norinco, for allegedly Iran selling missile technology.

- On July 4, 2003, an additional Chinese entity, the Taiwan Foreign
  Trade General Corporation, was sanctioned under the INA.

- On September 17, 2003, the Administration imposed sanctions on
  a leading Russian arms manufacturer, the Tula Instrument Design
  Bureau, for allegedly selling laser-guided artillery shells to Iran.

- On April 7, 2004, the Administration announced sanctions on 13
  entities under the INA, including companies from Russia, China,
  Belarus, Macedonia, North Korea, UAE, and Taiwan.

- On September 29, 2004, fourteen entities were sanctioned under the
  INA from China, North Korea, Belarus, India (two nuclear scientists,
  Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.

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63 See CRS Report RS22072, The Iran Nonproliferation Act and the International Space
Station: Issues and Options, by Sharon Squassoni and Marcia S. Smith.
In December 2004 and January 2005, INA sanctions were imposed on fourteen more entities, mostly from China, for alleged supplying of Iran’s missile program. Many, such as North Korea’s Changgwang Sinyong and China’s Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Other entities sanctioned included North Korea’s Paeksan Associated Corporation, and Taiwan’s Ecoma Enterprise Co.

On December 26, 2005, the Administration sanctioned another nine entities, including those from China (Norinco included yet again), India (two chemical companies), and Austria. At the same time, sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him of helping Iran.

On June 13, 2006, the Treasury Department designated four Chinese companies, under Executive order 13382 (June 29, 2005), as proliferators of WMD to Iran. The four companies are Beijing Alite Technologies, LIMMT Economic and Trading Company, China Great Wall Industry Corp, and China National Precision Machinery Import/Export Corp.

On August 4, 2006, seven entities were sanctioned under ISNA: two Indian chemical companies (Balaji Amines and Prachi Poly Products); two Russian firms (Rosobornexport and aircraft manufacturer Sukhoi); two North Korean entities (Korean Mining and Industrial Development, and Korea Pugang Trading); and one Cuban entity (Center for Genetic Engineering and Biotechnology). The decision to sanction these entities was reported a day after the House voted down a proposal to condition a U.S.-India civilian nuclear deal (H.R. 5682, passed by the House on July 26, 2006) on India’s cooperation with U.S. policy against Iran.

As with previous years’ appropriations, the FY2006 foreign aid appropriation (P.L. 109-102) punishes the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran’s nuclear and ballistic missiles programs. House- and Senate-passed FY2007 foreign aid legislation (H.R. 5522) contain similar provisions.

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

to prevent the flow of narcotics from that country into Iran. Britain has sold Iran some night vision equipment and body armor for the counter-narcotics fight. Iran also reportedly is supporting the international counter-narcotics effort in Afghanistan by providing aid to Afghan farmers to grow crops other than poppy.

**Trade Ban.** On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran. This followed an earlier March 1995 executive order barring U.S. investment in Iran’s energy sector. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, most recently on March 11, 2005, the U.S. Administration has renewed a declaration of a state of emergency that triggered the March 1995 investment ban. Some modifications to the trade ban since 1999 account for the small trade that does exist between the United States and Iran. The trade ban would likely have to be eased further to provide the incentives promised in the six power package offered to Iran. The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply:

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran, and in December 1999, the Clinton Administration allowed the repair of engine mountings on seven Iran Air 747s (Boeing).

- OFAC regulations do not permit U.S. firms to negotiate investment deals with Iran or to trade Iranian oil overseas.

- Since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to OFAC licensing. Private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees are available and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations law (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration provided the credit guarantees. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive.

- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that

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65 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.
product. In January 2003, the tariff on roasted pistachios was lowered to 22% and on raw pistachios to 163%. In December 2004, U.S. sanctions were further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan).

- Subsidiaries of U.S. firms are not barred from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. Some U.S. companies have come under scrutiny for dealings by their subsidiaries with Iran. On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, Halliburton reportedly is to provide $30 million to $35 million worth of services per year through Oriental Kish. This leaves unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran-Libya Sanctions Act (ILSA)66 because the dealings apparently involved a subsidiary of Halliburton. Because of criticism, Halliburton announced on January 28, 2005, that it would withdraw all employees from Iran and end its pursuit of future business opportunities there, although it is not clear that Halliburton has pulled out of the Oriental Kish deal.67 One week later, GE announced it would seek no new business in Iran. According to press reports, GE has been selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries. The trade ban appears to bar any Iranian company from buying a foreign company that has U.S. units.

- The trade ban permits U.S. companies to apply for licenses to conduct “swaps” of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999.

- In May 2002 Moody’s stopped its credit ratings service for Iran’s government bonds on the grounds that performing this service might violate the U.S. trade ban.

- The U.S. Treasury and State Departments have begun using U.S. trade regulations on Iran to pressure European banks not to do business with Iran. On December 20, 2005, the Treasury Department had fined Dutch bank ABN Amro $80 million for failing to fully report the processing of financial transactions involving Iran’s Bank Melli (and another bank partially owned by Libya). In 2004, the Treasury Department fined UBS $100 million


for the unauthorized movement of U.S. dollars to Iran and other sanctioned countries. On September 8, 2006, the Treasury Department said it would bar U.S. banks from handling any indirect transactions with Iran’s state-owned Bank Saderat, which the Administration accuses of providing funds to Hezbollah.68

**The Iran-Libya Sanctions Act (ILSA).** ILSA (P.L. 104-172, August 5, 1996), as amended, sanctions foreign (or U.S.) investment of more than $20 million in one year in Iran or Libya’s energy sector. It was to sunset on August 5, 2001, but it was renewed for another five years (P.L. 107-24, August 3, 2001). However, in order to prevent ILSA expiration and allow time for broader ILSA-related legislation to be considered, a bill that extended ILSA until September 29, 2006 (H.R. 5877), was passed, and it was signed August 4, 2006 (P.L. 109-267). The broader ILSA-related bills are H.R. 282, which was passed by the House on April 26, 2006; a Senate companion measure, S. 333; and H.R. 6198, the latter of which was passed and then signed on September 30, 2006 (P.L. 109-293). It extends ILSA until December 31, 2011, and drops Libya from the law. Like H.R. 282 and S. 333, it codifies existing Iran sanctions, makes exports to Iran of WMD or advanced conventional weapons technology sanctionable, and authorizes additional funding for promoting democracy in Iran. It recommends a 180-day time limit for the Administration to determine whether a project violates ILSA. Another bill, S. 2657, would have extended ILSA until August 5, 2011, without modification. For more information on ILSA, see CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*, by Kenneth Katzman.

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

**Status of Some U.S.-Iran Assets Disputes.** A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the 1980 break in relations and freezing of some of Iran’s assets. Major cases yet to be decided center on hundreds of Foreign Military Sales (FMS) cases between the United States and the Shah’s regime, which Iran claims it paid for but were unfulfilled. About $400 million in proceeds from the resale of that equipment was placed in a DOD FMS account, and about $22 million in Iranian diplomatic property remains blocked, although U.S. funds have been disbursed — credited against the DOD FMS account — to pay judgments against Iran for past acts of terrorism against Americans. Other disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran $61.8 million in compensation ($300,000 per wage earning victim, $150,000 per non-wage earner) for the 248 Iranians killed. The

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United States has not compensated Iran for the airplane itself, to date. As it has in past similar cases, the Administration has opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation.69

**Multilateral Policies Toward Iran**

Most U.S. allies have favored engagement as a means to change Iran’s behavior, a philosophy that might explain European efforts to negotiate a solution on the nuclear issue. However, new agreements between Iran and the European countries and Japan appear to be linked to progress on the nuclear issue. During 1992-1997, the European Union (EU) countries maintained a policy of “critical dialogue” with Iran, asserting that dialogue and commerce could moderate Iran’s behavior. The European countries and Japan refused to join the 1995 U.S. trade and investment ban on Iran. The European dialogue with Iran was suspended following the April 1997 German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. After Khatemi became president, the EU-Iran dialogue resumed (May 1998), and he made state visits to most major European countries as well as Japan.

**EU-Iran Trade Negotiations/WTO Membership.** In December 2002, as part of its engagement strategy, the EU (European Commission) first began negotiations with Iran on a “Trade and Cooperation Agreement” (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries. However, revelations about Iran’s undeclared nuclear activity caused a suspension of the talks in July 2003. The TCA talks resumed in January 2005 in concert with the “Paris Agreement” (above). Working group discussions focused not only on the TCA terms and proliferation issues but also on Iran’s human rights record, Iran’s efforts to derail the Middle East peace process, Iranian-sponsored terrorism, counter-narcotics, refugees, migration issues, and the Iranian opposition PMOI. After the eighth round of negotiations on July 12-13, 2005, the talks were suspended after the August 2005 breakdown of the Paris Agreement. A further indicator that trade and investment agreements with Iran are on hold pending a nuclear solution is the apparent breakdown in September 2006 of negotiations for Japan’s Inpex to invest $2 billion to develop Iran’s large (26 billion barrels) onshore Azadegan oil field.

Iran first attempted to apply to join the WTO in July 1996. On 22 occasions after that, representatives of the Clinton and then the Bush Administration blocked Iran from applying (applications must be by consensus of the 148 members). As discussed above, as part of an effort to assist the EU-3 nuclear talks with Iran, the Administration announced on March 11, 2005, that it would drop opposition to Iran’s applying for WTO membership. At a WTO meeting in May 2005, no opposition to Iran’s application was registered by any state, and Iran began accession talks.

**Multilateral, World Bank, and IMF Lending to Iran.** U.S.-allied differences on Iran during the 1990s included European and Japanese creditors’

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rescheduling of about $16 billion in Iranian debt during 1994-1995. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling. Iran’s improved external debt led most European export credit agencies to restore insurance cover for exports to Iran. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling $500 million in bonds to European banks.

The European countries and Japan have also differed with the United States on providing international loans to Iran, although new lending appears to be contingent on Iran’s response to international nuclear demands. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of $460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the Bank by the amount of those loans. The legislation contributed to a temporary halt in new Bank lending to Iran, but by 1999, Iran’s moderating image had led the World Bank to consider new loans. U.S. policy, as explained on October 29, 2003, a Treasury Department official, Bill Schuerch, in testimony before the House Financial Services Committee, has been to try to persuade other nations not to approve World Bank loans. However, in May 2000, the United States’ allies outvoted the United States to approve $232 million in loans for health and sewage projects. During April 2003-May 2005, a total of $725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to a $400 million in loans for earthquake relief. A provision of the House-passed State Department authorization bill for FY2006 and FY2007 (H.R. 2601) calls on the Administration to lobby other governments to vote against international loans to Iran.

Conclusion

Mistrust between the United States and Iran’s Islamic regime has run deep for over two decades, even before the emergence of a dispute over Iran’s nuclear program. Many experts say that all factions in Iran are united on major national security issues and that U.S.-Iran relations might not improve unless or until the Islamic regime is removed or moderates substantially, even if a nuclear deal is reached and implemented. Others say that, despite Ahmadinejad’s presidency, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein. Those who take this view say that Iran is far more secure now that the United States has removed these two regimes, and it might be more willing than previously to accommodate U.S. interests in the Gulf. Others say that the opposite is more likely, that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran is redoubling its efforts to develop WMD and other capabilities to deter the United States.
Figure 1. Structure of the Iranian Government

**ASSEMBLY OF EXPERTS**
(86 seats, elected)

selects can remove, choose successor

**SUPREME LEADER**
Ali Khamene'i

oversees, can dismiss

advises

**SUPREME NATIONAL SECURITY COUNCIL**
(Ali Larijani)

commander-in-chief

**COUNCIL OF GUARDIANS**
(12 members — 6 clerics appointed by Supreme Leader, 6 legal scholars appointed by the Judiciary)

screens candidates

reviews laws, screens candidates

**PRESIDENT**
Mahmoud Ahmadinejad (directly elected)

appoints

**JOINT HEADQUARTERS**

Regular Military

Revolutionary Guard

**Basij**

**Majiles (Parliament)**
(290 seats, elected)

confirms cabinets

proposes legislation

speaker:
Gholam Ali Haddad-Add

** Expediency Council**
Akbar Hashemi Rafsanjani (appointed)

arbitrates legislative disputes between Majiles & Council of Guardians
Figure 2. Map of Iran

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