

# Issue Brief for Congress

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## **Iran: Current Developments and U.S. Policy**

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## Iran: Current Developments and U.S. Policy

### SUMMARY

During the late 1990s, signs of moderation in Iran had stimulated the United States to try to engage Iran in broad, official talks. Iran, still split between conservatives and reformers loyal to President Mohammad Khatemi, remains distrustful of the United States and has not accepted. Relations took another downturn when Iran was grouped with North Korea and Iraq as part of the “axis of evil” identified in President Bush’s January 29, 2002 State of the Union message. The grouping came despite Iran’s tacit cooperation with the United States against the Taliban in the post-September 11, 2001 war in Afghanistan. Iran was also quietly helpful in the U.S. effort to oust Iraq’s Saddam Hussein in 2003, although Iran might be attempting to support Shiite Islamic factions there that would greatly boost Iran’s influence in post-war Iraq. The Bush Administration has warned Iran not to meddle in post-war Iraq, but has sought to dampen speculation that the United States might move against Iran militarily as part of a next step in the “war on terrorism.”

President Bush has identified Iran’s efforts to acquire weapons of mass destruction and delivery means, coupled with its support of terrorist groups, as key U.S. concerns. In particular, Iran’s nuclear program has made major strides recently and prompted a level of Administration concern that some describe as alarm. The Bush Administration has identified Iran’s modernization of its conventional forces as a potential threat to U.S. interests in the Persian Gulf, but others argue that the buildup has been minor and that Iran still is relatively poorly equipped.

Iran has opposed the U.S.-led Middle East peace process since its inception in October 1991. It continues to provide material support to Hizballah in Lebanon and to Palestinian groups that oppose the Arab-Israeli peace process, such as Hamas and Palestinian Islamic Jihad. Some Al Qaeda activists are reportedly in Iran as well, although their relationship with the regime, if any, is unclear. Iran’s human rights practices, particularly its treatment of the Baha’i and the Jewish communities, are frequently criticized by U.S. officials and Members of Congress.

The Bush Administration has continued most aspects of the containment policies toward Iran that characterized preceding administrations. During the first term of the Clinton Administration, as part of a policy of “dual containment” of Iran and Iraq, President Clinton imposed a ban on U.S. trade and investment in Iran in 1995, and a 1996 law imposed sanctions on foreign investment in Iran’s energy sector (Iran-Libya Sanctions Act, ILSA). In keeping with a 1997 policy shift toward engagement, the Clinton Administration and Congress later eased sanctions to allow U.S. exports to Iran of food and medical supplies and importation from Iran of goods such as carpets and caviar. The United States has consistently worked with its allies to prevent arms and advanced technology sales to Iran and to limit Iran’s influence over regional energy flows. U.S. purchases of Iranian crude oil and U.S. company investments in Iran remain barred. ILSA was renewed for another 5 years on August 3, 2001 (H.R. 1954, P.L. 107-24).

## **MOST RECENT DEVELOPMENTS**

In December 2002, U.S. officials said that Iran is building two previously unknown nuclear sites at Arak and Natanz, which could be used in a nuclear weapons program. A visit by the International Atomic Energy Agency to the Natanz facility on February 21 found that the facility contained a more advanced uranium enrichment program than was expected. On April 23, Administration officials warned Iran not to meddle in post-Saddam Iraq by supporting Shiite Islamist organizations seeking power there, although without specifically threatening military action if Iran defied the warning.

## **BACKGROUND AND ANALYSIS**

A power struggle in Iran between revolutionary purists and more moderate reformists colors Iran's domestic and foreign policies. Since February 2002 testimony, DCI George Tenet has been saying that Iran's reform movement is "losing momentum" to the "unelected" hardliners. Since mid-2002, President Mohammad Khatemi has become more vocal in criticizing obstructions by hardliners, and in late August 2002, he proposed new legislation that would strengthen the power of his office; it was passed by the Majlis but still pending before the legislative review body called the Council of Guardians.

Khatemi, who was re-elected on June 8, 2001 by a landslide 77% of the vote against nine more conservative candidates, remains popular, by most accounts. His reelection victory was larger than his 69% first win in May 1997. His supporters have held about 70% of the seats in the 290-seat Majlis (parliament) since their victory in the February 18, 2000 Majlis elections. However, Khatemi's reform program has been largely obstructed by hardliners, including Supreme Leader Ali Khamene'i (successor to Ayatollah Khomeini), who control key revolutionary institutions such as the Council of Guardians. Since early 2000, hardliners in the judiciary have closed more than 60 reformist newspapers and imprisoned or questioned several editors and even some members of the Majlis. Khatemi suffered a political setback in February 28, 2003, local elections, with hardliners winning most of the seats in Tehran in a low turnout (14% in Tehran) election that suggested reformist disillusionment at the slow pace of reform thus far.

The arrests and trials of reformists are one example of Khatemi's difficulty. In November 2002, a popular history professor and ally of Khatemi, Hashem Aghajari, was convicted by a local (Hamadan) court of apostasy and sentenced to death, prompting several days of student demonstrations and some clashes with hardline security enforcers. Khamene'i ordered the sentence reviewed; Iran's Supreme Court revoked the sentence in February 2003.

## **Iran's Strategic Buildup**

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

## Conventional Weapons

Iran's armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard, the latter of which is loyal to the hardliners. According to U.S. military officials, Iran's forces could block the Strait of Hormuz at least temporarily, but Iran is largely lacking in ability to project power far beyond its borders. See CRS Report RL31529, *Conventional Arms Transfers to Developing Nations, 1994-2001*.

## Weapons of Mass Destruction (WMD)

It is partly because of Iran's attempts to acquire WMD that President Bush, in his January 29, 2002 State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea. Iran's programs continue to be assisted primarily by entities in Russia, China, and North Korea. For further information, see CRS Report RL30551, *Iran: Arms and Weapons of Mass Destruction Suppliers*.

**Nuclear Program.** Concerns are growing about the scope of Iran's nuclear program, despite Iran's occasional voluntary revelations about its facilities. In response to allegations by Iran's exiled opposition, Iran acknowledged in December 2002 that it is building two additional facilities, at Arak and Natanz, that could be used for a nuclear weapons program. International Atomic Energy Agency (IAEA) director Mohammad Baradei visited the Natanz site on February 21, 2003, and said that it was a more advanced uranium enrichment facility than was expected. It could produce enriched uranium by 2005. The Arak facility reportedly is a heavy water reactor that could be used to produce plutonium. Khatemi also announced before the visit that Iran is mining its own uranium. The Bush Administration said the sites indicate Iran is planning to try to acquire a nuclear weapon, despite Iran's assertion that the sites are for electricity generation purposes only, and the revelations mean Iran might produce a nuclear weapon sooner than the 8 to 10 years previously thought. During the IAEA visit, Iran refused the IAEA's urging that it sign the "Additional Protocol" to the Nuclear Non-Proliferation Treaty, which would allow no-notice inspections, but it did pledge to inform the IAEA in advance of constructing any new nuclear facilities. The Arak and Natanz revelations have overshadowed the previous focus of U.S. concern: Russia's work, under a January 1995 contract with Iran, to complete a nuclear power plant at Bushehr. The plant is to be operational by the end of 2003. Russia says that it has reached agreement with Iran to supply fuel for the reactor for ten years and for Russia to reprocess the plant's spent nuclear material.

**Chemical and Biological Weapons.** Official U.S. reports state that Iran is seeking a self-sufficient chemical weapons infrastructure, mainly from Chinese sources, and that it has stockpiled chemical weapons, including blister, blood, and choking agents. This raises questions about Iran's compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. The reports say Iran may have some capability to produce biological agents, but that its ability to weaponize them is limited.

**Missiles.** Largely with Russian help, Iran is making progress in its missile program. Two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) were either inconclusive or unsuccessful (the July 2000 test appears to have been a success), but Iran conducted an apparently successful test in late May 2002, and the

Defense Department now assesses the missile as operational. Iran might have produced 10 - 20 of them, according to press reports. Iran is also trying to make a 1,200 mile range Shahab-4, but U.S. officials told journalists in late October 2002 that an Iranian test of an extended-range Shahab had failed. In March 2002, an intelligence community official upgraded the missile threat from Iran, testifying that the United States would “most likely” face an intercontinental ballistic missile threat from Iran by 2015. On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile, and Iran said in late September 2002 that it has begun production of the missile.

## **Iranian Foreign Policy and Involvement in Terrorism**

Iran’s continued support for terrorism contributed to President Bush’s strong criticism of Iran in his 2002 State of the Union message. The State Department report on international terrorism for 2001, released May 21, 2002, again stated, as it has for most of the past decade, that Iran “remained the most active state sponsor of terrorism in 2001,” although the report attributes the terrorist activity to two hardline institutions — the Revolutionary Guard and the Intelligence Ministry. On the other hand, Iran strongly condemned the September 11 attacks and tacitly supported the U.S. war on the Taliban and Al Qaeda. (See also CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002.*)

### **Persian Gulf**

Khatemi has largely succeeded in improving relations with Iran’s neighbors, particularly the six states of the Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). Since he came into office, Iran has reduced support for Shiite Muslim dissident movements in the Gulf states. In early October 2002, Iran and Kuwait signed a defense and intelligence cooperation agreement. See also CRS Report RL31533, *Persian Gulf: Issues for U.S. Policy, 2003.*

**Saudi Arabia/Khobar Towers.** Iran and Saudi Arabia restored relations in December 1991 (after a 4 year break), and progressively higher level contacts have taken place since December 1997. In May 1999, Khatemi became the first senior Iranian leader to visit Saudi Arabia since the Islamic revolution; he visited again on September 11, 2002, to discuss possible U.S.-Iraq war. Supreme Leader Khamene’i has been invited to visit the Kingdom as well but has not yet done so. These exchanges suggest that Saudi Arabia has tried to move 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. On June 21, 2001, a federal grand jury indicted 14 suspects, 13 Saudis and a Lebanese citizen, for the Khobar bombing. The indictment indicated that Iranian agents were likely involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. (See CRS Issue Brief IB93113, *Saudi Arabia: Postwar Issues and U.S. Relations.*)

**Gulf Islands Dispute With UAE.** Relations between Iran and the UAE have been strained since April 1992, when Iran asserted complete control of the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, completely seized two other islands, Greater and Lesser

Tunb, from the emirate of Ras al-Khaymah, and it seized part of Abu Musa that year from the emirate of Sharjah.) The UAE wants to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. Several GCC states have attempted to mediate in recent years and Iran-UAE tensions have eased somewhat, but Iran insists that it has sovereignty over the islands. The United States, which is concerned about Iran's military improvements to the islands, generally supports UAE proposals but takes no position on sovereignty.

**Iraq.** A legacy of the 8-year long Iran-Iraq war (September 1980 - August 1988) is deep lingering suspicion between Iran and Iraq, and Iran appears to be benefitting politically from the ouster of Saddam Hussein. Iran, which fears potential encirclement by pro-U.S. regimes, publicly opposed a major U.S. military offensive against Iraq because it was not authorized by the United Nations. However, Iran offered the United States at least tacit backing for the war, in the hope that Saddam's overthrow would put Tehran's proteges in power there. Several press reports said that U.S. and Iranian diplomats met in Europe prior to the war to discuss tacit cooperation on humanitarian and refugee issues.

Tehran is now benefitting from its long-term support for Shiite militants in southern Iraq — the Supreme Council for the Islamic Revolution in Iraq (SCIRI) and the Da'wa (Islamic Call) party. In the political vacuum left by the ousting of the Baath regime of Iraq, these and similar parties have seized control over many of the towns and cities of southern Iraq. SCIRI loyalists from its armed wing called the "Badr Corps" were reported in late April to be moving into southern Iraq to help SCIRI become the dominant political force there and to prepare for the return to Iraq of SCIRI leader Mohammad Baqr al-Hakim. Some Badr fighters moved into northern Iraq in March 2003. The upsurge of Shiite activism after the fall of Saddam Hussein prompted an April 23, 2002, warning from the White House to Iran not to meddle in Iraq's affairs, although no specific consequences were mentioned. Iran denied that it is "meddling" in Iraq's affairs, saying that longtime Iraqi activists were returning to Iran to participate in the politics of post-Saddam Iraq. (For more information on Shiite and other groups contending for power in post-war Iraq, see CRS Report RL31339, *Iraq: U.S. Regime Change Efforts and Post-War Governance.* )

Overt the past five years Saddam Hussein had sought to improve relations with Iran to reduce Iraq's regional isolation. Since early 1998, Iran and Iraq exchanged almost all remaining prisoners from the 1980-1988 Iran-Iraq war. An October 2000 visit to Iraq by Iran's Foreign Minister Kamal Kharrazi resulted in apparent agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords, which Iraq had abrogated prior to its September 1980 invasion of Iran. In exchange for a share of the proceeds, Iran's naval forces sometimes cooperated with Iraq's illicit export of oil through the Gulf, although U.S. officials say Iran was preventing the smuggling in recent months.

## **Middle East/North Africa**

Many of the U.S. concerns about Iran's support for terrorism center on its assistance to groups opposed to the Arab-Israeli peace process, primarily Hamas, Palestinian Islamic Jihad (PIJ), Hizballah, and the Popular Front for the Liberation of Palestine-General Command. U.S. terrorism reports state that, following the start of the September 2000 Palestinian uprising, Iran increased its support for terrorism by encouraging coordination among Palestinian terrorist groups. Iran also incites anti-Israel violence, including hosting

conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). Khamene'i has continued to call Israel a "cancerous tumor" and make other statements suggesting that he seeks Israel's destruction. Khatemi, while publicly pledging support for the anti-peace process groups, has sometimes tried to moderate Iran's position somewhat. On October 15, 2002, the Iranian Foreign Ministry said Iran would not seek to block any final, two-state Israeli-Palestinian settlement. It was viewed as a new development when Israel and the United States asserted in early January 2002 that Iran was the source of a shipment, intercepted by Israel, of 50 tons of arms bought by the Palestinian Authority (PA). Iran has traditionally had few ties to the non-Islamist Palestinian organizations, including elements linked to the PA, that have conducted some of the day-to-day violence against Israel in the current uprising.

**Lebanon/Hizballah.** About 150 Iranian Revolutionary Guards remain in Lebanon to coordinate Iranian arms deliveries to Hizballah, which are offloaded in Damascus and trucked into Lebanon. The shipments have included Stingers obtained by Iran in Afghanistan, mortars that can reach the Israeli city of Haifa if fired from southern Lebanon, and, in 2002, over 8,000 Katyusha rockets, according to press reports. In mid-April 2002, Foreign Minister Kharrazi visited Lebanon and urged Hizballah to exercise restraint on the Israeli-Lebanese border at a time of heightened tensions between Israel and the Palestinians. However, Hizballah is believed to take cues from harder line Iranian elements. On March 11, an Argentinian judge issued arrest warrants for four Iranian diplomats, including former Intelligence Minister Ali Fallahian, for alleged complicity in the 1994 bombing of a Jewish community center in Buenos Aires, which killed 85. Hizballah is believed to have committed the act, as well as the 1992 bombing of Israel's embassy in that city.

**Sudan.** Sudan's close relations with Iran in the early 1990s contributed to Sudan's placement on the U.S. "terrorism list" on August 18, 1993. However, Sudan's alliance with Iran frayed in the mid 1990s as Sudan sought to burnish its international image.

## **Central and South Asia/Azerbaijan/Former Yugoslavia**

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

Tensions with Azerbaijan flared in late July 2001 over energy exploration rights in the Caspian; Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian Iran considers its own. The United States called that action provocative, and it offered new border security aid and increased political support to Azerbaijan. Iran and Armenia, an adversary of Azerbaijan, agreed on expanded defense cooperation in early March 2002. Iran-Azerbaijan tensions eased somewhat in conjunction with the mid-May 2002 visit of Azerbaijan's President Heydar Aliyev to Iran, although there was little evident progress on a bilateral division of their portions of the Caspian.

**Al Qaeda/Afghanistan/Pakistan.** Iran long opposed the puritanical Sunni Muslim regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed several Iranian diplomats based in northern Afghanistan, and it provided military aid to the anti-Taliban Northern Alliance coalition, made up of mostly Persian-speaking minority groups. Iran — along with the United States, Russia, and the countries bordering Afghanistan — attended U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the internal conflict in Afghanistan. Iran and the United States also participated in a U.N.-sponsored group in Geneva, which includes Italy and Germany.

Iran tacitly supported the U.S.-led war on the Taliban and Al Qaeda, but some of Iran's subsequent activities in Afghanistan reflect official suspicion of the United States and the influence of hardliners in Iran's regime. Iran is said to fear the pro-U.S. tilt of the new government of Afghanistan and the waning of Iran's traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate. There have been press reports and U.S. official statements since in January 2002 that hardliners in Iran are harboring, or at least not aggressively moving to arrest, senior Al Qaeda operatives who have fled Afghanistan (Sayf al-Adl and Abu Hafis the Mauritanian) as well as perhaps a few hundred Al Qaeda fighters that reportedly might include Osama bin Laden's son, Saad bin Laden. The United States reportedly has U.S. special operations forces in Afghanistan to areas near the Iranian border to hunt for Al Qaeda fighters. On the other hand, press reports say Iran has been arresting and extraditing Al Qaeda members to Saudi Arabia.

Other reports say Iran is arming local Afghan strongmen including Herat governor Ismail Khan, Mazar-e-Sharif governor Abdul Rashid Dostam, and others, and President Bush has warned Iran not to seek to exert influence over the new government of Afghanistan. Apparently seeking to deflect the U.S. criticism, in March 2002 Iran reportedly expelled exiled Pashtun figure Gulbuddin Hikmatyar, an opponent of the new Afghan government. The expulsion followed a February 24, 2002 visit to Iran by Afghan leader Hamid Karzai; the two countries agreed to broad cooperation. (See CRS Report RL30588, *Afghanistan: Current Issues and U.S. Policy Concerns*.)

**Former Yugoslavia.** On June 26, 1996, and again on May 5, 1997, President Clinton certified to Congress that Bosnia had expelled foreign forces and ended intelligence cooperation with Iran. The certifications were required by P.L. 104-122, an FY1996 supplemental appropriation, and P.L. 104-208, the FY1997 foreign aid appropriation, in order to provide U.S. aid to Bosnia.

## Human Rights Concerns

U.S. and U.N. human rights reports cite Iran for widespread human rights abuses, (especially of the Baha'i faith), including assassinations and executions of regime opponents (Kurds, People's Mojahedin, and others) in Iran and abroad. These reports note that Khatemi's efforts to promote rule of law have met repeated challenges from hardliners, and the U.S. State Department report for 2002, released in March 2003, said Iran's human rights situation had deteriorated further in the past year. However, in April 2002, the U.N. Human Rights Commission narrowly voted not to investigate Iran's human rights record during

2002-2003. On January 30, 2003, Iran released the 80-year-old Ayatollah Montazeri, from house arrest; Montazeri was Khomeini's designated successor until being dismissed by Khomeini in 1989, and he later emerged as a critic of the post-Khomeini leadership. In the 108<sup>th</sup> Congress, two resolutions (S.Res. 82 and H.Res. 140) were introduced on March 12, 2003, expressing concern about Iran's human rights practices, particularly its treatment of women.

**Religious Persecution.** In October 2001, the State Department again named Iran as a "Country of Particular Concern," under the International Religious Freedom Act, and little progress in Iran's performance on this issue was noted in the October 2002 religious freedom report. No sanctions were added, on the grounds that Iran is already subject to extensive U.S. sanctions. Religious persecution continues, especially against the Baha'i community, because Iran's Shiite Muslim clergy views the sect as heretical. Two Baha'is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). The United States condemned the execution. In February 2000, Iran's Supreme Court set aside the death sentences against three Bahais, Sirus Zabihi-Moqaddam, Hedayat Kashefi-Najafabadi, and Manucher Khulusi. On April 21, 1999, the Clinton Administration expressed concern about the sentencing to prison of four Baha'is. Recent resolutions condemning Iran's treatment of the Baha'is, including S.Con.Res. 57, which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000.

**Trial of 13 Jews.** Although the 30,000 member Jewish community (the largest in the Middle East aside from Israel) enjoys more freedoms than Jewish communities in several other Muslim states, during 1993-1998 Iran executed five Jews allegedly spying for Israel. In June 1999, Iran confirmed that it had arrested 13 Jews — 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 in which eight of the suspects "confessed" to the allegations, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000) and received sentences ranging from 4 years to 13 years. Three Jews were acquitted. On September 21, 2000, a three-judge appeals panel reduced the sentences slightly, now ranging from 2 to 9 years. On February 8, 2001, Iran's Supreme Court let the revised sentences stand. In March 2001, Iran released one of the Jews on the grounds that his sentence included time served; another was released on January 16, 2002. Three more were given early release in late October 2002. Iran said on April 24, 2003, that the remaining five had been released. Several bills in the 106<sup>th</sup> Congress called for the release of the detainees and for linking U.S. relations with Iran to the trial's outcome; the Senate passed S.Con.Res. 39 (June 23, 1999) and S.Con.Res. 109 (May 4, 2000). In April 2001, a similar bill, H.Con.Res. 29, was introduced in the 107<sup>th</sup> Congress.

## U.S. Policy and Sanctions

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 no official dialogue since. The exception was the abortive 1985-86 clandestine arms supply relationship with Iran in exchange for some American hostages held

by Hizballah in Lebanon (the so-called “Iran-Contra Affair”). Iran maintains an interests section in Washington (Embassy of Pakistan), staffed by Iranian permanent resident aliens or U.S. citizens of Iranian descent. The U.S. protecting power in Iran is Switzerland.

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 shift in U.S. policy toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to increase “people-to-people” exchanges with the United States but ruled out official dialogue.

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

Until early 2002, the Bush Administration appeared to be continuing the Clinton Administration efforts, in part by building on the cooperation between the two countries in Afghanistan. The Administration’s November 13, 2001 continuation of the 1979 national emergency on Iran said that U.S. “relations with Iran have not yet returned to normal,” a far softer statement than previous justifications sighting a continued threat from Iran. Supreme Leader Khamene’i sought to undermine any warming; on October 30, 2001, he threatened to dismiss any Iranian official who tried to forge relations with the United States. His statement came a few weeks after several Members of Congress had dinner in the Senate with Iran’s U.N. representative.

The thawing in relations halted in January 2002. Allegations that month of Iran’s sale of arms to the Palestinian Authority and reputed meddling in Afghanistan, and late 2002 revelations of new undeclared nuclear sites at Arak and Natanz (see above) have caused the Administration and Congress to become more critical of Iran’s intentions and actions. As noted above, President Bush named Iran as part of an “axis of evil” in his State of the Union message. On July 12, 2002, President Bush issued a statement supporting those Iranians demonstrating for reform and democracy, a message he reiterated on December 20, 2002 when he inaugurated a new U.S. broadcast to Iran, Radio Farda (Tomorrow). The statements signaled a shift in U.S. policy from attempting to engage and support Khatemi and his faction to publicly supporting Iranian reformers and activists. This view, based on the conclusion that engaging Khatemi would not produce more moderate Iranian policies on key issues, was mirrored in Congress during 2002 when several Members called for U.S. efforts to promote civil society in Iran. Two resolutions introduced in late July 2002 (S.Res. 306 and H.Res. 504) called for positive U.S. gestures toward “the people of Iran, and not political figures whose survival depends upon preservation of the current regime.” Some interpreted the U.S. shift as a move toward a regime change policy for Iran.

The aftermath of the U.S.-led war on Iraq has led to speculation that Iran might be a future target of U.S. military action. The Bush Administration has not threatened military action against Iran, either in response to assertions it is meddling in post-war Iraq or to try to force it to end its nuclear program. However, experts say that the Administration is considering a number of options, most of which are diplomatic but some of which might include certain military actions, to address Iran's suspected nuclear weapons program.

## **Economic Sanctions**

Since the November 4, 1979 seizure of the U.S. hostages in Tehran, economic sanctions have formed a major part of U.S. policy toward Iran. On November 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.

**Terrorism/Foreign Aid.** Following the October 1983 bombing of the U.S. Marine barracks in Lebanon, believed perpetrated by Hizballah, Iran was added to the "terrorism list" in January 1984. The designation bans direct U.S. financial assistance and arms sales, restricts sales of U.S. dual use items, and requires the United States to oppose multilateral lending to the designated countries. Separate from its position on the terrorism list, successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) and indirect assistance (U.S. contributions to international organizations that work in Iran). Section 307 of the Foreign Assistance Act of 1961 (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, requiring proportionate cuts if these institutions work in Iran. Iran also has been designated every year since 1997 as not cooperating with U.S. anti-terrorism efforts, under the Anti-Terrorism and Effective Death Penalty Act (P.L. 104-132). That Act penalizes countries that assist or sell arms to terrorism list countries, and another law (the Defense Department Authorization Act of 1987) limits Defense Department contracts with companies controlled by terrorism list states (\$100,000 contract limit). 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.

**Proliferation Sanctions.** Several sanctions laws are unique to Iran. The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran "destabilizing numbers and types of conventional weapons," as well as WMD technology. The Iran Nonproliferation Act (P.L. 106-178) authorizes sanctions on foreign entities that assist Iran's WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under the Agency's control had not transferred any WMD or missile-related technology to Iran within the year prior. The provision contains certain exceptions to ensure the safety of astronauts who will use the space station and for certain space station hardware. During 2001 and 2002, a number of entities in North Korea, China, India, Armenia, and Moldova were sanctioned under the Iran Nonproliferation Act, the Iran-Iraq Arms Nonproliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran.

**Counternarcotics.** In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production

or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. The decision exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. Britain reportedly has sold Iran small arms for its anti-drug efforts on the Afghan border.

**Trade Ban.** On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran, including the trading of Iranian oil overseas by U.S. companies. This followed an earlier March 1995 executive order barring U.S. investment in Iran's energy sector. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Each March since 1995, most recently on March 13, 2003, the U.S. Administration has renewed a declaration of a state of emergency that triggered the March 1995 investment ban. An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran. Some goods related to the safe operation of civilian aircraft can be licensed for export to Iran, and in December 1999, the Clinton Administration allowed the repair of engine mountings on seven Iran Air 747s (Boeing). Implementing regulations do not permit U.S. firms to negotiate investment deals with Iran.

Following a 1998 application by a U.S. firm to sell Iran agricultural products, and in the context of Clinton Administration and congressional reviews of U.S. unilateral sanctions policies, the Clinton Administration announced in April 1999 that it would license, on a case-by-case basis, commercial sales of food and medical products to certain countries on which unilateral U.S. trade bans are in place (Iran, Libya, and Sudan). Under regulations issued in July 1999, private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees are available and U.S. exporters are not permitted to deal directly with Iranian banks. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive. The FY2001 agriculture appropriations (P.L. 106-387), contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration has provided the credit guarantees.

In the March 2000 speech mentioned above, the trade ban was eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar; regulations governing the imports were issued in April 2000. The United States was the largest market for Iranian carpets before the 1979 revolution, although U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that product. In January 2003, the tariff on roasted pistachios was lowered to 22% and on raw pistachios to 163%. Iranian caviar and carpets are now sold in the United States.

**The Iran-Libya Sanctions Act (ILSA).** The Iran-Libya Sanctions Act (ILSA, H.R. 3107, P.L. 104-172, signed August 5, 1996) is a law that sanctions foreign investment in Iran or Libya's energy sector. It was to sunset on August 5, 2001, but it was renewed for another five years (H.R. 1954, P.L. 107-24, signed August 3, 2001). The renewal law requires an Administration report on its effectiveness within 24-30 months (as early as August 2003). No sanctions have been imposed under ILSA, although three companies involved in one project (South Pars) were deemed in violation in September 1998; sanctions were waived.

A number of other investments have remained “under review” for ILSA sanctions since 1999. In the 107<sup>th</sup> Congress, H.Res.434 called on the President to sanction Canadian oil company Sheer Energy, which, in May 2002, announced an \$80 million contract to develop an Iranian oil field. In October 2002, Norway’s Statoil agreed to invest \$300 million to develop phases six, seven, and eight of the South Pars gas field. See CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*.

**Caspian/Central Asian Energy Routes Through Iran.** The U.S. trade ban permits U.S. companies to apply for licenses to conduct “swaps” of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999. The Bush Administration continues to oppose, and to threaten imposing ILSA sanctions on, pipeline projects that route Caspian/Central Asian energy through Iran. U.S. policy has been to strongly favor construction of a pipeline that would cross the Caspian Sea and let out in Ceyhan, Turkey (Baku-Ceyhan pipeline), avoiding Iran or Russia. Four Caspian nations (Turkey, Georgia, Azerbaijan, and Kazakhstan) signed an agreement embracing Baku-Ceyhan on November 18, 1999, and regional and corporate support for the project has gained momentum to the point where pipeline construction is expected to begin in earnest soon. Kazakhstan nonetheless has been pushing for construction of an oil pipeline across Iran. Despite U.S. pressure not to import Iranian gas, in December 2001 Turkey began doing so through a new cross-border pipeline, under an August 1996 agreement. (See CRS Report 98-86, *Iran: Relations With Key Central Asian States*.)

**Europe and Japan’s Relations With/Lending to Iran.** U.S.-allied differences on Iran narrowed in the late 1990s in concert with the Clinton Administration’s attempt to engage Iran, a policy consistently favored by the European countries as a way to moderate Iran’s behavior. During 1992-1997, the European Union (EU) countries maintained a policy of “critical dialogue” with Iran. The United States did not oppose those talks but maintained that the EU’s dialogue would not change Iranian behavior. The dialogue was suspended immediately following the April 1997 German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. Alongside the post-1997 U.S. shift toward engagement, the EU-Iran dialogue formally resumed in May 1998. Since then, Khatemi has undertaken state visits to several Western countries, including Italy (March 1999), France (October 1999), Germany (July 2000), and Japan (November 2000). The United States publicly welcomed these visits. On December 12, 2002, Iran and the EU began formal negotiations on a trade pact that would lower the tariffs or increase quotas for Iranian exports to the EU countries, with some linkage to Iran addressing EU concerns on Iran’s human rights practices and terrorism sponsorship.

The resolution of the “Rushdie affair” to Britain’s satisfaction sparked improvement in its relations with Iran. Iran maintains that Ayatollah Khomeini’s 1989 death sentence against author Salman Rushdie cannot be revoked (his “Satanic Verses” novel was labeled blasphemous) because Khomeini is no longer alive to revoke it. However, on September 24, 1998, Iran’s Foreign Minister pledged to Britain that Iran will not seek to implement the sentence and opposes any bounties offered for his death. Britain then upgraded relations with Iran to the ambassadorial level, and Foreign Ministers of the two countries have exchanged several visits. In October 2000, Britain began extending longer term credit (two years or greater) for exports to Iran. Some Iranian clerics (outside the formal government structure) have said the death sentence stands, and the Iranian government has not required

the Fifteen Khordad foundation to withdraw its \$2.8 million reward for Rushdie's death. Khatemi said on June 4, 2001 that he considers the issue closed.

In August 1999, Japan continued a gradual improvement in relations with Iran by announcing a resumption of Japan's official development lending program for Iran to construct a hydroelectric dam over the Karun River. However, the \$70 million increment announced was less than Iran had wanted, and Japan said that this tranche would close out Japan's involvement in the project. (In 1993, Japan provided the first \$400 million tranche of the overall \$1.4 billion official development loan program, but the lending was subsequently placed on hold as the United States sought to persuade its allies to pressure Iran.) In late January 2000, Japan agreed to resume medium- and long-term export credit insurance for exports to Iran, suspended since 1994. Economic relations improved further during Khatemi's November 2000 visit to Tokyo, which resulted in Iran's granting Japanese firms the first right to negotiate to develop the large Azadegan field, and Iran and a Japanese-led consortium are moving forward with preliminary studies of the field. Some press reports suggest that Royal Dutch/Shell might join the Azadegan project, apparently because it can provide needed technology. In exchange, Japan agreed to prepay Iran \$1 billion per year for the next 3 years for Iranian oil. Partly at U.S. urging, Japan refused to extend to Iran additional official loans.

During 1994-1995, and over U.S. objections at the time, Iran's European and Japanese creditors rescheduled about \$16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling and International Monetary Fund (IMF) involvement. Iran has worked its external debt down from \$32 billion in 1997 to about \$20 billion as of March 2002, according to Iran's Central Bank. The improved debt picture has led most European export credit agencies, including Germany's Hermes, France's COFACE, and that of Spain, to restore insurance cover for exports to Iran. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks. At the urging of the U.S. government, in May 2002 Moody's stopped its credit ratings service for Iran's government bonds on the grounds that performing the credit ratings service might violate the U.S. trade ban.

**Multilateral Lending to Iran.** Section 1621 of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132) amended the Foreign Assistance Act to require the United States to vote against international loans to countries on the U.S. terrorism list. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects. To signal opposition to international lending to Iran, the FY1994 foreign aid appropriations (P.L. 103-87) cut the Administration's request for the U.S. contribution to the World Bank by the amount of those loans. That law, as well as the foreign aid appropriations for FY1995 (P.L. 103-326) and FY1996 (P.L. 104-107), would have significantly reduced U.S. payments to the Bank if it had provided new loans to Iran.

By 1999, Iran's moderating image had led the World Bank to consider new loans. In May 2000, the United States was unsuccessful in obtaining further delay on a vote on new lending for Iran, and its allies outvoted the United States to approve \$232 million in loans for health and sewage projects. Twenty one of the Bank's twenty four governors voted in favor, and France and Canada abstained. Earlier, Iran also had asked the International

Monetary Fund for about \$400 million in loans (its quota is about \$2 billion) to help it deal with its trade financing shortfalls. However, Iran balked at accepting IMF conditionality, and there was no agreement. Despite the required U.S. opposition, on May 10, 2001, the World Bank's executive directors voted to approve a two-year economic reform plan for Iran that envisions \$775 million in new Bank loans. In May 2003, the Bank will consider a \$112 million loan to Iran for low- and middle-income housing.

**WTO.** The Bush Administration said in July 2001 that U.S. opposition to Iran's membership in the World Trade Organization (WTO) was "under review," but there have been no recent indications that the United States will drop that opposition. On several occasions since then, the WTO, at U.S. urging, has postponed discussion on whether to launch entry talks with Iran.

**Travel Sanctions.** Use of U.S. passports for travel to Iran is permitted, but a State Department travel warning, softened somewhat in April 1998, asks that Americans "defer" travel to Iran. Iranians entering the United States are required to be fingerprinted.

**Assets Disputes/Victims of Terrorism.** Iran views the issue of disputed claims and blocked assets as an obstacle to improved relations. A U.S.-Iran Claims Tribunal, at the Hague, is arbitrating cases resulting from the break in relations following the Iranian revolution. The major cases yet to be decided center on hundreds of Foreign Military Sales cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About \$400 million in proceeds from the resale of that equipment is in a DOD account, and about \$22 million in diplomatic property remains blocked.

The assets issue moved to the forefront following several U.S. court judgements against Iran for past acts of terrorism against Americans, filed under the Anti-Terrorism and Effective Death Penalty Act of 1996. For information on suits against Iran that have been filed, their outcomes, and legislation regarding these suits, see CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*.

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

## **Military Containment**

U.S. policy has focused on containing the military threat posed by Iran to the United States, U.S. allies in the Persian Gulf, and international shipping. Although containing Iraq has been the primary goal of U.S. forces in the Persian Gulf region since the Iraqi invasion of Kuwait, U.S. military officials note that U.S. forces could potentially be used against Iran, if the President so decides. U.S. military officers note that their encounters with Iranian naval vessels in the Gulf have been more professional since Khatemi took office. It is

possible that the U.S. military posture in the Gulf might change in the aftermath of the war against Iraq, probably to lower force levels. Such a reduction might, in the view of some experts, reduce U.S. military containment against Iran.

## Iran's Opposition Movements

Although the Bush Administration seeks to strengthen the voices of reform, it is not declared U.S. policy to change Iran's regime, and the United States does not fund Iranian opposition movements. 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) — about \$14 million more than requested — according to a *Washington Post* report of December 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime's behavior, rather than its overthrow. The conference report on H.R. 2267 (H.Rept. 105-405), the FY1998 Commerce/State/ Justice appropriation, provided \$4 million for a "Radio Free Iran," to be run by Radio Free Europe/Radio Liberty (RFE/RL). The radio, which the Administration called the Farsi service of RFE/RL, began operations in Prague on October 31, 1998, and has become, as of December 2002, Radio Farda (Tomorrow), which broadcasts nearly around the clock. Another \$4 million for the radio for FY1999 was provided by the omnibus appropriation (H.R. 4328, P.L. 105-277).

Since the late 1980s, the State Department has refused contact with the anti-regime People's Mojahedin Organization of Iran (PMOI) and its umbrella organization, the National Council of Resistance (NCR). It was designated as a foreign terrorist organization (FTO) in October 1997 under the Anti-Terrorism and Effective Death Penalty Act of 1996, and the NCR was named as an alias of the PMOI in the October 1999 re-designations. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list. U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and subsequently agreed to a ceasefire with PMOI military elements in Iraq. The PMOI says the agreement allows their forces to retain some weaponry, a development that drew protest from Tehran, which wants the group removed from its bases in Iraq permanently. For further information on this group, see CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*.

Some Iranian exiles follow the son of the late former Shah, who lives in the United States. On January 24, 2001, the Shah's son, Reza Pahlavi, 40 years old, ended a long period of inactivity by giving a speech in Washington calling for unity in opposition to the current regime and for the institution of a constitutional monarchy and genuine democracy in Iran. He has since broadcast messages into Iran from a station in California, and press reports say a growing number of Iranians are listening to his broadcasts.