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Iran: U.S. Concerns and Policy Responses

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Summary

The Bush Administration has pursued several avenues to attempt to contain or end the potential threat posed by Iran, at times pursuing limited engagement, and at other times leaning toward pursuing efforts to change Iran's regime. Some experts believe a potential crisis is looming over Iran's nuclear program because the Bush Administration is skeptical that efforts by several European allies to prevent a nuclear breakout by Iran will succeed. Some advocate military action against Iran's nuclear infrastructure, but others believe that a combination of diplomatic and economic rewards and punishment are the only viable options on the nuclear issue. U.S. sanctions currently in effect ban or strictly limit U.S. trade, aid, and investment in Iran and penalize foreign firms that invest in Iran's energy sector, but unilateral U.S. sanctions do not appear to have materially slowed Iran's WMD programs to date.

Other major U.S. concerns include Iran's policy in the Near East region, particularly Iran's material support to groups that use violence against the U.S.-led Middle East peace process, including Hizballah in Lebanon and the Palestinian groups Hamas and Palestinian Islamic Jihad. Some senior Al Qaeda activists are in Iran as well, although Iran claims they are "in custody" and will be tried, and the 9/11 Commission has found that some officials in Iran might have facilitated or at least tolerated travel through Iran by Al Qaeda operatives. Iran did not obstruct the U.S. effort to oust Iraq's Saddam Hussein, a longtime Tehran adversary, at least partly in the expectation that pro-Iranian Shiite Islamic factions would come to power in Iraq in the aftermath. Iran is also reported to be cultivating and assisting pro-Iranian local leaders in Afghanistan, although that support does not appear to be materially hindering the gradual stabilization and development of Afghanistan.

Iran's human rights practices and strict limits on democracy have been consistently and harshly criticized by official U.S. reports, particularly for Iran's suppression of religious and ethnic minorities. However, Iran does hold elections for some positions, including that of president, suggesting to some experts that there might be benefits to engaging Iranian officials. According to this view, new sanctions or military action could harden Iran's positions without necessarily easing the potential threat posed by Iran.

For further information, see CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*, and CRS Report RS21548, *Iran's Ballistic Missile Capabilities*. This report will be updated as warranted by developments.

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Iran: U.S. Concerns and Policy Responses

Threat Assessments and U.S. Concerns

Part of the debate over U.S. policy toward Iran has centered on the nature of the current regime. Some experts believe that Iran is a threat to U.S. interests because hardliners in Iran's regime dominate and set a policy direction intended to challenge U.S. influence and allies in the region. The elements of that challenge include attempting to acquire weapons of mass destruction (WMD), supporting terrorist groups, failing to extradite senior Al Qaeda leaders, repressing its own population, and pressuring regional U.S. allies. Some maintain that Iran will constitute a major threat to U.S. interests unless and until all elements of the current regime are removed and replaced with a non-Islamic, pro-Western government. Others believe that common strategic interests in stability in Central Asia and the Persian Gulf could drive Iran to become a potential ally of the United States on at least some issues, whether or not moderates prevail politically inside Iran.

Political History

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

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

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

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

Regime Stability, Internal Politics, and Human Rights

After about a decade as leader of the revolution, Ayatollah Khomeini died on June 3, 1989. His regime continues, now led by his clerical disciples. Upon Khomeini's death, one of those disciples, Ayatollah Ali Khamene'i, then serving as president, was named Supreme Leader by an "Assembly of Experts." The Assembly chooses the person who will fill the position of Supreme Leader and can amend Iran's constitution. (The Assembly of Experts is an elected body.) Khamene'i had served as elected president since 1981 (re-elected in 1985). Khamene'i lacks the unquestioned spiritual and political authority of Khomeini, but Khamene'i appears to face no direct threats to his position. An elected president, Mohammad Khatemi, was re-elected on June 8, 2001 by a landslide 77% of the vote against nine more conservative candidates. Khatemi remains popular by most accounts, but he is politically subordinate to the Supreme Leader. Khatemi's re-election victory was larger than his 69% first win in May 1997. His supporters held about 70% of the seats in the 2000-2004 Majles (parliament) after their victory in the February 18, 2000, elections. The next presidential elections are set for June 17, 2005.

The United States does not have a declared policy of changing Iran's regime, although some U.S. officials who favor a regime change policy point to growing sentiment for reform by major segments of the population, including students. These reform elements are critical of and have occasionally demonstrated against "unelected" hardliners, including the Supreme Leader, Ayatollah Ali Khamene'i. The Supreme Leader controls appointments to key institutions such as the armed forces and the twelve-member Council of Guardians,¹ a body that reviews legislation to ensure it conforms to Islamic law. Another unelected body dominated by conservatives is the "Expediency Council," set up in 1988 to resolve legislative disagreements between the Majles and the Council of Guardians. Even before the February 2004 victory in Majles elections by conservatives, Khamene'i and his allies had largely constrained the influence of the reformers.

Khatemi and the Reformist Camp. Khatemi is a mid-ranking cleric, one rank below Ayatollah. He served as Minister of Culture and Islamic Guidance in the early 1990s but was dismissed from that post in 1993 because of criticism that he was

¹ 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).

allowing Western cultural material to receive wider distribution in Iran. From his dismissal until his election in 1997, he was head of Iran's national library. He derives key political support from a reformist grouping called the Islamic Iran Participation Front, headed by his brother, Mohammad Reza Khatemi, who was a deputy speaker in the 2000-2004 Majles. Another group, the student-led Office for Consolidation and Unity, is generally pro-Khatemi but has reportedly become somewhat critical of him for failing to challenge the hardliners assertively. The depth of dissatisfaction within the reform camp was exposed during major student demonstrations on June 8, 2003, the fourth anniversary of the violent suppression of students and others who were rioting in favor of faster reform. Four students were killed by regime security forces during the July 1999 protests. Some of the 2003 protesters called for Khatemi to resign for being ineffective in promoting reform. President Bush issued statements in support of the demonstrators, although then Secretary of State Powell said the protests represented a "family fight" within Iran in which the United States should not seek a role.

A third major pro-Khatemi grouping is the Mojahedin of the Islamic Revolution organization (MIR), composed mainly of left-leaning Iranian figures who, during the 1980s, sought greater state control of the economy and export of Iran's Islamic revolution to other countries in the region. A fourth grouping considered supportive of Khatemi and the reformists is the Society of Combatant Clerics. A prominent member of that grouping is Mehdi Karrubi, who was speaker of the 2000-2004 Majles. Karrubi has announced his candidacy for president in the June 17, 2005, presidential elections. Another potential candidate backed by some reformists is former science minister Mostafa Moin.

Since mid-2002, Khatemi, partly in response to his reformist critics, became more vocal in criticizing obstructions by hardliners. In August 2002, he proposed new legislation that would strengthen the power of his office; it was passed by the elected 290 seat Majles but blocked by the Council of Guardians. The latest example of conservatives' efforts to thwart Khatemi was an early October 2004 vote by the Majles to oust Minister of Transportation Ahmad Khorram. That removal led to the resignation of another Khatemi ally, Vice President for Legal and Parliamentary Affairs Mohammad Ali Abtahi.

The Conservatives and the June 2005 Elections. The conservatives began gaining momentum against Khatemi in February 28, 2003 local elections, with conservative candidates winning most of the seats from Tehran in a low turnout (14%) election that suggested reformist disillusionment at the slow pace of reform. The power struggle between Khatemi and the conservatives caused a crisis in the run-up to the February 20, 2004, Majles elections. The Council of Guardians disqualified about 3,600 mostly reformist candidates, including 83 members of the current Majlis. Some were prominent, such as deputy speakers Mohammad Reza Khatemi and Behzad Nabavi. Khatemi attempted to resolve the crisis through talks with Khamene'i, but the Council of Guardians refused to follow Khamene'i's urging to reinstate most candidates and even increased the number of disqualified incumbents to 87. The Interior Ministry (which ran the elections) and many reformists said the elections should have been postponed in order to be free and fair, but Khatemi agreed to obey Khamene'i's directive to hold the elections on time.

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

Several governments, the United States and the European Union countries, criticized the 2004 Majles election as unfair because of the widespread disqualification of the reformists. Just before the elections, on February 12, 2004, the Senate passed by unanimous consent S.Res. 304, expressing the sense of the Senate that the United States should not support the elections and should advocate "democratic government" in Iran. After the elections, on February 24, 2004, President Bush said "I join many in Iran and around the world in condemning the Iranian regime's efforts to stifle freedom of speech. I am very disappointed." A reported CIA assessment said the election dealt a severe blow to the reformists and that the election might deepen popular discontent with the clerical regime, but that Iran's foreign and defense policies would likely not change much because decisions on these issues were already largely in the hands of the conservatives.²

As a result of the election-related maneuvering, a moderate-conservative grouping called the "Builders of Islamic Iran," led by former Labor Minister Ahmad Tavakkoli, emerged as a key bloc in the new Majles. A new Majles speaker, Gholem Ali Haded-Adel, was selected. The chairman of the Expediency Council, former two-term president (1989-1997) Ali Akbar Hashemi-Rafsanjani, saw his influence bolstered; he is considered the patron of many conservatives in the Majles, although he is also considered acceptable to many reformists. Rafsanjani is considering running for president again in the June 17, 2005 elections, which would be constitutionally permitted. Several of his allies are declared or possible conservative candidates, although some are deferring formal announcements until Rafsanjani announces his decision on running. Declared conservative candidates include former foreign minister Ali Akbar Velayati, and former Revolutionary Guard commander Mohsen Rezai (now Secretary-General of the Expediency Council.) Other potential candidates from conservative factions include chief nuclear negotiator Hassan Ruhani (a Rafsanjani protege), state broadcasting head Ali Larijani, the new Majles Speaker Hadad-Adel, and a sitting Revolutionary Guard figure, Mohammad Baqer Qalibaf, who in December 2004 was appointed head of a government anti-smuggling authority.

Prominent Dissidents. In addition to the reformist camp that seeks to moderate the Islamic system of government from within the political structure, several major dissidents seek more sweeping change. One dissident cleric, Ayatollah

² Jehl, Douglas. CIA Says Election in Iran Dealt Blow to Reform. *New York Times*, February 26, 2004.

Hossein Ali Montazeri, was released in January 2003 from several years of house arrest. He had been Khomeini's designated successor until 1989, when Khomeini dismissed Montazeri for allegedly protecting liberal intellectuals and other opponents of clerical rule. He has since remained under scrutiny by the regime, but in September 2003, he criticized the seizure of the U.S. Embassy in 1979 as well as the core principle of the revolution: direct participation in government by the clerics. Other prominent dissidents include exiled theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, and political activist Hashem Aghajari (of the Mojahedin of the Islamic Revolution), who was initially sentenced to death for blasphemy but whose sentence was overturned; he has been released.

Anti-Regime Groups: People's Mojahedin Organization of Iran (PMOI). Some groups in exile seek the outright replacement of the current regime with one that is nationalist, secular, or left-wing. One group, which is left-leaning, is the People's Mojahedin Organization of Iran (PMOI), which has been criticized by the United States even though the PMOI is an opponent of Tehran. Since the late 1980s, the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The PMOI, formed in the 1960s to try to overthrow the Shah of Iran, advocated Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution but was later excluded from power and forced into exile. The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997 under the Anti-Terrorism and Effective Death Penalty Act of 1996, and the NCR was named as an alias of the PMOI in the October 1999 re-designations. The FTO designation was prompted by PMOI attacks in Iran that sometimes killed or injured civilians — although the group does not appear to purposely target civilians — and by its alleged killing of seven American defense advisers to the former Shah in 1975-1976. In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.

U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and, after temporarily agreeing to a ceasefire with PMOI military elements in Iraq, subsequently confined the approximately 4,000 PMOI fighters and activists to their Ashraf camp near the border with Iran. Press reports in late May 2003 said some Administration officials, particularly in the Defense Department, wanted the group removed from the FTO list and a U.S. alliance with the group against the Tehran regime.³ However, on August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI and NCR, and ordered those facilities closed. National Security Adviser Condoleezza Rice said in mid-November 2003 that the United States is unambiguously treating the group as a terrorist organization. That perception shifted again with the decision in late July 2004 to grant the Ashraf detainees "protected persons" status under the 4th Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. The PMOI has used this status determination to argue that the group should no longer be designated as an FTO.

³ Cloud, David. "U.S., Iran Hit Bumpy Terrain on Road to Rapprochement." *Wall Street Journal*, May 12, 2003.

In other action against the group, on June 17, 2003, France arrested about 170 PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, who is still based in Iraq.) She was subsequently released and remains in France. For further information, see CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*.

Pro-Shah Activists. Some Iranian exiles, as well as some in Iran, want to replace the regime with a constitutional monarchy presumably led by the U.S.-based son of the late former Shah. On January 24, 2001, the Shah's son, Reza Pahlavi, who is about 50 years old, ended a long period of inactivity by giving a speech in Washington calling for unity in opposition to the current regime as well as the institution of a constitutional monarchy and genuine democracy in Iran. He has since broadcast messages into Iran from Iranian exile-run stations in California, and press reports say a growing number of Iranians inside Iran are listening to his broadcasts, although he is not believed to have a large following there.⁴ Deputy Secretary of State Armitage testified before the Senate Foreign Relations Committee on October 28, 2003, that following a request to the Cuban government, the jamming from Cuba of Iranian exile and U.S. broadcasting to Iran had ceased; the jamming was carried out by Iranians in Cuba, not the Cuban government, according to Armitage.

Criticism of Iran's Human Rights Record. Recent U.S. Administrations, including the State Department's human rights report for 2003 released February 25, 2004, have harshly criticized Iran's human rights record for its crackdowns against dissidents and some minorities. However, U.S. officials have not generally considered Iran's human rights record as a strategic threat to U.S. interests or an obstacle to the beginning of a U.S.-Iran dialogue. U.S. and U.N. human rights reports cite Iran for widespread human rights abuses (especially of the Baha'i faith), including assassinations and executions of regime opponents (Kurds, PMOI and others) in Iran and abroad. These reports note that Khatemi's efforts to promote rule of law have met repeated challenges from hardliners. 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. Press reports from November 2004 say Iran has also begun blocking hundreds of pro-reform websites. One major case was the apparent beating death of a Canadian journalist of Iranian origin, Zahra Kazemi, while she was in Iranian detention. She had been detained in early July 2003 for filming outside Tehran's Evin prison. The trial of an intelligence agent who allegedly conducted the beating resulted in an acquittal on July 25, 2004, prompting widespread accusations that the investigation and trial were not fair.

Iran's hardliners significantly downplayed the naming in October 2003 of Iranian human rights/women's rights lawyer Shirin Ebadi as winner of the Nobel Peace prize. Reformist newspapers acknowledged and at least mildly praised her award. In January 2005, a revolutionary court ordered her to appear; she refused, and the court then backed down and claimed its summons was an error. In the 108th Congress, resolutions (S.Res. 82 and H.Res. 140) were introduced on March 12,

⁴ Kampeas, Ron. "Iran's Crown Prince Plots Nonviolent Insurrection from Suburban Washington." *Associated Press*, August 26, 2002.

2003, expressing concern over Iran's human rights record, particularly its treatment of women.

Religious Persecution. U.S. reports and officials continue to cite Iran for religious persecution. Since March 1999, the State Department has named Iran as a "Country of Particular Concern," each year under the International Religious Freedom Act, and little progress in Iran's performance on this issue was noted in the December 2003 International Religious Freedom Report. No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.

Iran is repeatedly cited for repression of the Baha'i community, which Iran's Shiite Muslim clergy views as a heretical sect. Two Baha'is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). The United States condemned the execution. In February 2000, Iran's Supreme Court set aside the death sentences against three other Baha'is. On April 21, 1999, the Clinton Administration expressed concern about the sentencing to prison of four Baha'is. Several congressional resolutions have condemned Iran's treatment of the Baha'is, including S.Con.Res. 57 (106th Congress), which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000. In the 108th Congress, H.Con.Res. 319 contains sense of Congress language on the Baha'is similar to that in previous years.

Repression of Jews. Although the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys more freedoms than Jewish communities in several other Muslim states, during 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews, who were teachers, shopkeepers, and butchers, from the Shiraz area that it said were part of an "espionage ring" for Israel. After an April - June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000) and received sentences ranging from four years to 13 years. Three Jews were acquitted. On September 21, 2000, a three-judge appeals panel reduced the sentences slightly, now ranging from two to nine years. On February 8, 2001, Iran's Supreme Court let the new sentences stand. Iran began releasing them in January 2001; the last five were freed in April 2003.

Iran's Strategic Capabilities and Weapons of Mass Destruction Programs

For the past two decades, the United States has sought to contain the strategic threat posed by Iran's WMD programs. Iran is not considered a major conventional threat to the United States, but some of its weapons of mass destruction (WMD) programs, particularly its nuclear and ballistic missile programs, have made significant progress and could potentially put U.S. allies and forces at risk.

Iran's armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard. The latter is generally loyal to the hardliners and, according to some recent press reports, becoming more assertive in political decisions as government leaders have become more dependent on it to maintain

control. In mid-2004, Guard personnel closed part of a new airport in Tehran when the government chose a foreign (Turkish) contractor to run the airport.

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

Iran's conventional capabilities have concerned successive U.S. Administrations far less than have Iran's attempts to acquire weapons of mass destruction (WMD). Partly because of recent acceleration of some of Iran's WMD programs, particularly its nuclear program, President Bush, in his January 29, 2002 State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea.

Iran may see WMD, particularly the acquisition of a nuclear weapons capability, as a means of ending its perceived historic vulnerability to U.S. domination, or as a symbol of Iran's perception of itself as a major nation. Some see Iran's WMD programs as an instrument for Iran to dominate the Persian Gulf region. There are also fears Iran might transfer WMD to some of the extremist groups it supports, such as Lebanese Hizbollah, although there is no evidence to date that Iran has taken any steps in that direction. Iran's programs continue to be assisted primarily by entities in Russia, China, and North Korea. For further information, see CRS Report RL30551, *Iran: Arms and Weapons of Mass Destruction Suppliers*.

Nuclear Program.⁵ Many observers believe that there is an emerging crisis between Iran and the international community over Iran's nuclear ambitions. As U.S. and European concerns about the scope of Iran's nuclear program have grown over the past few years, U.S. and European policies have converged substantially on the issue. Administration officials say that the United States, at least for now, is allowing the European states to take the lead in trying to negotiate curbs on Iran's program that would ensure that Iran could not acquire a nuclear weapon.

At the same time, the Administration expresses skepticism that the European approach will succeed. The Bush Administration asserts that Iran is working toward a nuclear weapons capability, that it has not upheld its obligations under the 1968 Nuclear Non-Proliferation Treaty (NPT), and that Iran's assertions that its nuclear program is for peaceful purposes only are not credible. On June 18, 2003, President Bush stated that the United States would "not tolerate construction" of a nuclear weapon by Iran, and he told journalists on April 21, 2004, that Iran "will be dealt

⁵ For further information, see CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*.

with, starting through the United Nations,” if it does not fully cooperate with International Atomic Energy Agency (IAEA) inspections. During her trip to several European countries during February 4-10, 2005, Secretary of State Condoleezza Rice highlighted the Iran nuclear issue, at times urging the Europeans to back international sanctions should Iran fail to satisfy international concerns, and generally downplaying, but not ruling out, the possibility of U.S. unilateral military action.

In the 108th Congress, a resolution, H.Con.Res. 398, passed the House on May 6, 2004, by a vote of 376-13; it calls for all parties to the NPT, including the United States, to use “all appropriate means to deter, dissuade, and prevent Iran from acquiring nuclear weapons, including ending all nuclear and other cooperation with Iran. ...” The resolution calls on U.S. allies and others to cease investing in Iran and to cooperate with IAEA investigations into foreign assistance to Iran’s nuclear program.

There is some disagreement over the urgency of the issue. IAEA director Mohammad El Baradei said September 14, 2004, that the IAEA is not “in a position to say” that Iran’s nuclear intentions are entirely peaceful, but there is still no firm evidence that Iran is trying to develop a nuclear weapon. The IAEA has also stopped short of stating that Iran is in outright violation of its NPT obligations. The Central Intelligence Agency, in an unclassified report to Congress covering July 1, 2003 - December 31, 2003, says the “United States remains convinced that Tehran has been pursuing a clandestine nuclear weapons program...”⁶ Western intelligence services, which tend to agree with the U.S. assessments that Iran is seeking a nuclear weapons capability, estimate that Iran could achieve a nuclear capability as soon as 2007.⁷ Some reported Israeli estimates put Iran’s nuclear acquisition time frame as early as late 2005.⁸ Iran denies it has a nuclear weapons program, and claims its nuclear activities are for peaceful purposes only. Iran’s chief nuclear negotiator, Hassan Ruhani, says uranium enrichment is allowed under the NPT and that it will not give up the “right” to enrich uranium.

U.S. and European suspicions of Iran’s intentions gained urgency in December 2002 when Iran confirmed PMOI allegations that it was building two additional facilities, at Arak and Natanz, that could be used to produce fissile material that could be used for a nuclear weapon. (Natanz could produce enriched uranium and the Arak facility reportedly is a heavy water production plant; heavy water is used in a reactor that is considered ideal for the production of plutonium.) Iran aggravated international concerns throughout most of 2003 by refusing to sign the “Additional Protocol” to the NPT, which would allow for enhanced inspections. Iran did modify its safeguards agreement to provide advanced notice of new nuclear facilities construction. 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,

⁶ This CIA report is entitled “Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions. It is updated every six months. The report cited here was posted in late November 2004 [<http://www.odci.gov>].

⁷ Linzer, Dafna. “Iran a Nuclear Threat.” *Washington Post*, August 18, 2004.

⁸ Williams, Dan. “Israel Sees “Nuclear Capable” Iran by 2007.” *Reuters*, July 21, 2004.

North Korea) nuclear technology and designs. In late January 2004, Pakistan's government said its investigation concluded that at least two nuclear scientists, including Khan, provided unauthorized assistance to Iran's nuclear weapons program during the 1980s.⁹ In February 2004, Khan publicly admitted selling such goods to Iran, Libya, and North Korea.

At the same time, Russia, despite its own growing concerns about Iran's intentions, continued work on a nuclear power plant at Bushehr, a project implemented under a January 1995 contract with Iran. Russia's Federal Atomic Energy Agency said on October 15, 2004 that the reactor was completed, but that operations would not start until Iran signs an agreement under which Russia would provide reprocess the plant's spent nuclear material. Iran says Russia wants to charge too high a price for this support; the agreement has not been signed to date..

European Diplomatic Efforts/Agreement One. Believing that engagement might yield progress, beginning in 2003, the foreign ministers of Germany, France, and Britain (the "EU-3") undertook diplomacy to limit Iran's nuclear program. On October 21, 2003, the EU-3 and Iran issued a joint statement in which Iran pledged, in return for promises of future exports of peaceful nuclear technology:

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

Some outside experts maintain that the agreement did not ensure that Iran could not use an alternate route to a nuclear weapon, such as plutonium production.¹⁰ Khamene'i publicly backed the deal in November 2003, amid demonstrations against it by Iranian hardliners, who called it a capitulation. Iran signed the Additional Protocol on December 18, 2003 and the IAEA says Iran is largely abiding by its provisions, although the Majles has not yet ratified it.

Although Iran, in October 2003, handed over to the IAEA a file that it said detailed all its nuclear activities, the agreement began to deteriorate rapidly as it became clear that the international community would maintain strict scrutiny of Iran's program. In its November 10, 2003, and February 24, 2004, reports, the IAEA said that Iran had committed violations of its agreements, including unreported uranium enrichment, over an 18-year period, and that Iran did not declare designs, found in Iran by the IAEA in early 2004, of advanced uranium enrichment centrifuges, parts of which Iran made itself. The latter report added that traces of both highly enriched and low-enriched uranium had been found at two sites in Iran¹¹ and added that the Iranian military has been involved in manufacturing centrifuge

⁹ Lancaster, John and Kamran Khan. "Pakistanis Say Nuclear Scientists Aided Iran." *Washington Post*, January 24, 2004.

¹⁰ Milhollin, Gary. "The Mullahs and the Bomb." *New York Times*, October 23, 2003.

¹¹ Murphy, Francois. "U.N. Watchdog Accuses Iran of Unanswered Questions." *Reuters*, February 25, 2004.

equipment. IAEA board resolutions adopted after these reports, as well as a board resolution on June 18, 2004, condemned Iran's previous violations. In a defiant response, in July 2004 Iran broke the IAEA's seals on some of its nuclear centrifuges and announced it would resume work on centrifuge equipment, although Iran stopped short of threatening to enrich uranium.

Subsequent revelations in 2004 caused additional concern about the breakdown of the agreement. Press reports said Iran was negotiating to buy Russian deuterium gas, which could be used to boost nuclear explosions,¹² and the IAEA said in September 2004 that Iran had announced that it was preparing to convert 40 tons of uranium ("yellowcake") as a step toward making enriched uranium. Nuclear experts say that could, in theory, be sufficient to yield as many as five nuclear bombs. On the other hand, the IAEA determined in August 2004 that traces of enriched uranium found in Iran came on contaminated equipment, appearing to support Iran's view that Iran was not enriching uranium. In October 2004, the PMOI said Iran had nearly completed a previously unknown uranium enrichment facility in central Iran.

The breakdown of the October 2003 agreement caused the Bush Administration to argue for referring the issue to the U.N. Security Council for the possible imposition of international sanctions. The September 18, 2004, IAEA board meeting called on Iran to adhere to the deal and to clarify outstanding issues by the November 2004 IAEA meeting. The implicit threat was that the issue could be referred to the U.N. Security Council for possible sanctions, although the IAEA board resolution did not explicitly threaten that referral.

European Diplomatic Efforts/Deal Two. In the run-up to the November 25, 2004, IAEA board meeting, the EU-3 sought Bush Administration backing for another diplomatic overture to Iran — a reported "grand bargain" — in which Iran would substantially curb its nuclear program (suspend uranium enrichment) in exchange for broad diplomatic engagement with Iran (resumed talks on an Iran-EU trade agreement, support for Iran's entry into the World Trade Organization, and counter-narcotics assistance), assistance to the purely peaceful aspects of Iran's nuclear program (heavy water reactor, nuclear fuel), and possible easing of some U.S. sanctions.¹³ An October 15, 2004, U.S.-sponsored meeting of the G-8 group of industrialized nations endorsed this approach.

The European countries presented this approach to Iran in October 2004, but demanded that Iran suspend all uranium enrichment activity immediately, pending the reaching of the broad, permanent agreement. On November 14, 2004, Iran appeared to meet most European demands by agreeing to a rapid (as of November 22), verifiable suspension of uranium enrichment, to remain in place until a broader permanent agreement is reached. The IAEA subsequently incorporated the Iranian pledge into its new report, prepared for the November 25, 2004, IAEA meeting, adding that all declared nuclear material in Iran was accounted for. However, both the Europeans and the Bush Administration reacted cautiously to Iran's pledge.

¹² "Agents Seek Russian Sale of Nuke-Boosting Gas." *Washington Times*, July 29, 2004.

¹³ Weisman, Steven. "U.S. In Talks With Europeans on a Nuclear Deal With Iran." *New York Times*, October 12, 2004.

Reinforcing their suspicions, the deal nearly collapsed when Iran requested that some 20 centrifuges not be sealed to permit “research work” on them and stepped up uranium enrichment work in the week prior to the November 22 agreed suspension date. The EU-3 refused to allow any renegotiation of the deal, and Iran, in a letter to the IAEA on November 27, 2004, said it would allow camera monitoring of the research centrifuges. The EU-3 accepted the compromise, and the IAEA board adopted a resolution on November 28, 2004, that generally dropped the threat to refer the issue to the Security Council. The Bush Administration allowed the IAEA vote on the resolution but, in a November 29 statement by its representative to the IAEA, stated its reservations and skepticism about the long-term effectiveness of the deal.

Days after the IAEA meeting, the IAEA requested access to two secret Iranian military sites, including the large Parchin complex, where suspected nuclear access might be taking place. IAEA inspectors visited the site in January 2005. EU-3 - Iran negotiations on a permanent nuclear agreement formally began on December 13 and are continuing in Geneva; and EU-Iran talks on a free trade accord began in January 2005. However, a top Iranian negotiator said on January 11, 2005, that if the nuclear talks do not show progress by March 2005, Iran might begin enriching uranium. Iran says it will extend the enrichment suspension until June 2005 if the talks do make progress, although even this time frame will likely be insufficient to conclude a permanent agreement with the EU-3 that includes an Iran-EU free trade agreement. The EU complained to the Iranian negotiators about reports that Iran was performing maintenance on centrifuge equipment, although it is not clear that the Iranian activity represented a violation of the November 2004 agreement with the EU-3.

Chemical and Biological Weapons. 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 infrastructure, mainly from Chinese sources, and that it is stockpiling chemical weapons, including blister, blood, and choking agents. This raises questions about Iran’s compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. Recent CIA reports to Congress say Iran may have some capability to produce biological agents, but that its ability to make weapons from them is limited.¹⁴

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) reportedly were inconclusive or unsuccessful, but Iran conducted an apparently successful series of tests in June 2003, subsequently calling the missile operational and formally delivered several of them to the Revolutionary Guard. Iran publicly displayed six *Shahab-3* missiles in a parade on September 22, 2003. Despite Iran’s claims, U.S. experts say the missile is not completely reliable, and Iran tested a “new” [purportedly more accurate] version of it on August 12, 2004. Iran called the test successful, although some observers said Iran detonated the missile in mid-flight, raising questions about the success of the test. On November

¹⁴ “Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions, 1 July Through 31 December 2003” [<http://www.cia.gov>].

17, 2004, then Secretary of State Powell said there is some information that Iran might be working to adapt that missile to carry a nuclear warhead.¹⁵

On October 5, 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. If Iran has made this missile operational with the capabilities Iran claims, virtually all of Iran’s potential regional adversaries would be in range, including Israel, as well as substantial portions of Europe and U.S. bases in Turkey. Iran’s new claims would appear to represent an abrogation of its pledge in November 7, 2003, to abandon development of a 1,200 mile range missile. The PMOI asserts Iran is secretly developing an even longer range missile, 1,500 miles, with the help of North Korean scientists.¹⁶

Iran’s asserted progress on missiles would appear to reinforce the concerns of the U.S. intelligence community. 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 2015.¹⁷ On September 6, 2002, Iran said it successfully tested a 200 mile range “Fateh 110” missile, and Iran said in late September 2002 that it had begun production of the missile.¹⁸ (For more information, see CRS Report RS21548, *Iran’s Ballistic Missile Capabilities*.)

Foreign Policy and Support for Terrorism

Iran’s support for terrorist groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct the U.S.-led Middle East peace process. Tehran contends that the Arab-Israeli peace process is inherently weighted toward Israel, a U.S. ally, and cannot result in a fair outcome for the Palestinians. Iran’s continued support for anti-Israel terrorism contributed to President Bush’s strong criticism of Iran in his 2002 State of the Union message. The State Department report on international terrorism for 2003, released April 30, 2004, again stated, as it has for most of the past decade, that Iran “remained the most active state sponsor of terrorism in 2002,” although the report attributes the terrorist activity to two hardline institutions: the Revolutionary Guard and the Intelligence Ministry.¹⁹ Some recent reports say that Iranian hardline factions have launched new recruiting drives in Iran for potential suicide attackers in Iraq or Israel.²⁰

¹⁵ Wright, Robin and Keith Richburg. Powell Says Iran is Pursuing Bomb. *Washington Post*, November 18, 2004.

¹⁶ Jehl, Douglas. “Iran Reportedly Hides Work On a Longer-Range Missile,” *New York Times*, December 2, 2004

¹⁷ “Greater U.S. Concern About Iran Missile Capability.” *Reuters*, March 11, 2002.

¹⁸ “Iran: New Missile on the Assembly Line.” *New York Times*, September 26, 2002.

¹⁹ U.S. Department of State. *Patterns of Global Terrorism:2002*. Released April 2003

²⁰ Militant Recruiters Out in Open in Tehran. *Washington Times*, December 16, 2004.

Analysts see Iran's support for terrorist groups as one element in a broader foreign policy.²¹ Its policy is a product of the ideology of Iran's Islamic revolution, blended with and sometimes tempered by longstanding national interests that predate the Islamic revolution. Iran has tried to establish relatively normal relations with most of its neighbors, but, in its relations with some neighbors it has tried to actively influence internal events by promoting minority or anti-establishment factions.

Persian Gulf States. During the 1980s and early 1990s, according to U.S. officials and outside experts, Iran sponsored Shiite Muslim extremist groups opposed to the monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). These activities appeared to represent an effort by Iran to structure the Gulf region to its advantage by "exporting" its Islamic revolution. However, Iran's efforts were unsuccessful, and led the Gulf states to ally closely with the United States to confront Iran. By the mid-1990s, Iran began to shift more away from confrontation with the Gulf states by ending support for Shiite dissident movements there, a shift that accelerated after the election of Khatemi. (See CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2004.*)

Many observers closely watch the relationship between Iran and Saudi Arabia as an indicator of Iran's overall posture in the Gulf. During the 1980s, Iran sponsored disruptive demonstrations at annual Hajj pilgrimages in Mecca, some of which were violent, and Iran sponsored Saudi Shiite dissident movements. Iran and Saudi Arabia restored relations in December 1991 (after a four-year break), and progressively higher level contacts have taken place since December 1997. In May 1999, Khatemi became the first senior Iranian leader to visit Saudi Arabia since the Islamic revolution; he visited again on September 11, 2002. Supreme Leader Khamene'i has been invited to as well but has not done so. The 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 by some to have been orchestrated by Iranian agents.²² 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.

The United Arab Emirates (UAE) has considered the Islamic regime of Iran aggressive since April 1992, when Iran asserted complete control of the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE wants to refer the dispute to the International

²¹ Kemp, Geoffrey. *Forever Enemies? American Policy and the Islamic Republic of Iran.* Carnegie Endowment for International Peace, 1994. Pp. 82-88.

²² Walsh, Elsa. "Annals of Politics: Louis Freeh's Last Case." *The New Yorker*, May 14, 2001.

Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. In concert with Iran's reduction of support for Gulf dissident movements, UAE-Iran tensions have eased, and the UAE has not pressed the islands issue vigorously in several years. The United States, which is concerned about Iran's military control over the islands, supports UAE proposals but takes no position on sovereignty.

Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (the Iranian side is called South Pars). The North field is in operation and produces natural gas for export; Iran is developing its side of the field as well. Qatar's fears were heightened on April 26, 2004, when Iran's deputy Oil Minister said that Qatar is probably producing more gas than "her right share" from the field and that Iran "will not allow" its wealth to be used by others.

Iraq. The U.S. military ousting of Saddam Hussein appears to have benefitted Iran strategically. Iran publicly opposed the major U.S. military offensive against Iraq on the grounds that it was not authorized by the United Nations, but many observers believe Iran wanted Saddam Hussein (a Sunni Muslim) removed, and the way cleared for the ascendancy of Iraq's Shiites to power in Iraq.²³ Senior U.S. officials, including President Bush, have warned Iran against interfering in post-war Iraq by trying to establish an Iranian-style Islamic republic there. Iran has pledged \$10 million in direct assistance and additional in-kind aid for Iraq's reconstruction at the October 2003 donors conference in Madrid and the October 2004 donors conference in Tokyo. Iran attended a meeting in Egypt in late November 2004 to discuss new initiatives to promote stability in Iraq, but then Secretary of State Powell did not hold separate bilateral talks with Iran during that meeting.

The main thrust of Iran's strategy in Iraq has been to persuade all Shiite Islamist factions in Iraq to work together to ensure Shiite Muslim dominance of post-Saddam Iraq. That strategy appears to have borne fruit with the apparent victory (possibly more than 50% vote) of a Shiite Islamist bloc ("United Iraqi Alliance") in the January 30, 2005 National Assembly elections in Iraq. That bloc includes all of Iran's primary proteges in Iraq — the well-organized Shiite Islamist parties that Iran has supported since its 1979 Islamic revolution. The most pro-Iranian of these parties are the Supreme Council for the Islamic Revolution in Iraq (SCIRI), and, to a lesser extent, the Da'wa (Islamic Call) party. SCIRI was headed by Ayatollah Mohammad Baqir al-Hakim, the late Ayatollah Khomeini's choice to head an Islamic republic in Iraq, who returned to Iraq on May 10, 2003. He was killed in a major car bombing in Najaf on August 29, 2003, and was succeeded by his younger brother, Abd al-Aziz al-Hakim. Tehran has also expanded ties to Grand Ayatollah Ali al-Sistani, the 75-year-old Shiite cleric who is emerging as the leading Shiite political figure in Iraq. Sistani was born in Iran and moved to Najaf, Iraq at the age of 21. Sistani played a major role in putting together the "United Iraqi Alliance" slate. However, Sistani has, throughout his career, differed with Iran's doctrine of direct clerical involvement in government, and the leading figures on the slate have said they will not seek to establish an Iranian-style theocratic regime, although some of them have said Islam should be a major factor in post-Saddam Iraq.

²³ "Iran's Kharrazi Hopes for Shiite Role in Iraq." *Reuters*, April 9, 2003.

U.S. officials cite Iran for interfering in Iraq in a number of ways. On September 8, 2004, Secretary of Defense Rumsfeld accused Iran of sending money and fighters to proteges in Iraq.²⁴ In his press interview that day, he declined to contradict the open speculation that Iran is also giving some backing (money and possibly arms and tactical military advice) to radical Shiite cleric Moqtada al-Sadr, whose "Mahdi Army" militia has staged two major uprisings against U.S. and allied forces since April 2004.²⁵ Sadr is viewed as a potential challenger to Sistani, SCIRI, and Da'wa, and some Iranian hardliners are said to prefer Sadr as a more anti-U.S. Shiite alternative in Iraq. It is possible these hardliners might be assisting him with arms and money. However, the main thrust of Iran's strategy has been to persuade Sadr to enter the legitimate political process in order to bolster collective Shiite Islamist strength. Iran reportedly might be using its influence in Iraq to develop sources of information on U.S. operations in Iraq. Press reports say Iraqi political leader Ahmad Chalabi gave his Iranian contacts information on U.S. acquisition of Iranian intelligence codes.²⁶ Chalabi has denied the allegations.

Some Iranian conventional military moves at the border could reflect Iranian nervousness about U.S.-led coalition operations in Iraq or possibly be part of the broader attempt to bolster Iraqi Shiites politically. On June 21, 2004, Iran seized eight British seamen on a mission in the waterway between Iran and southern Iraq. Iran released the British personnel after a few days' detention, although Britain says Iran had steered the British personnel into Iranian waters.

Some commentators say Iran will not exercise substantial influence in Iraq. They note that most Iraqi Shiites generally stayed loyal to the Iraqi regime during the 1980-1988 Iran-Iraq war, which took nearly 1 million Iranian lives and about half that many Iraqi battlefield deaths. Most Iraqi Shiites appear not to want a cleric-run Islamic regime. In addition, Iran and Iraq were not able to ever erase their bitterness from the Iran-Iraq war. Saddam Hussein and Iran had exchanged almost all remaining prisoners from the Iran-Iraq war, but Iran did not return the military and civilian aircraft flown to Iran at the start of the 1991 Gulf war. Some post-Saddam Iraqi politicians have said they want Tehran to return the aircraft now that Saddam is gone. The memories of past territorial disputes linger, despite an October 2000 visit to Iraq by Iran's Foreign Minister Kamal Kharrazi resulting in agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords, which Iraq had abrogated prior to its September 1980 invasion of Iran. During the 1990s, Iran's naval forces did sometimes cooperate with Saddam Hussein's illicit export of oil through the Gulf, in exchange for substantial "protection fees."

Supporting Anti-Peace Process Groups. 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),

²⁴ Scarborough, Rowan. Rumsfeld: Iran Aids Rebels. *Washington Times*, September 8, 2004.

²⁵ Wong, Edward. "Iran Is In Strong Position to Steer Iraq's Political Future." *New York Times*, July 3, 2004.

²⁶ Risen, James and David Johnston. "Chalabi Reportedly Told Iran That U.S. Had Code." *New York Times*, June 2, 2004.

Hizballah, and the Popular Front for the Liberation of Palestine-General Command. All are named as foreign terrorist organizations (FTO) by the State Department. U.S. terrorism reports, including the State Department report on global terrorism for 2002, said that following the start of the September 2000 Palestinian uprising, Iran increased its covert support for terrorism by encouraging coordination among Palestinian terrorist groups. Iran also has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). In January 2002, according to U.S. and Israeli officials, Iran made a shipment, intercepted by Israel, of 50 tons of arms bought by the Palestinian Authority (PA). This action surprised many observers because Iran has traditionally had few ties to the non-Islamist Palestinian organizations.

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

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

Iran maintains a close relationship with Lebanese Hizballah, a group responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s. Hizballah maintains military forces along the border and operates outside Lebanese government control, even though the United Nations has certified that Israel had completed its withdrawal from southern Lebanon (May 2000). Hizballah asserts the withdrawal was incomplete and that Israel still occupies small tracts of Lebanese territory. A small number (about 200) of Iranian Revolutionary Guards reportedly remain in Lebanon to coordinate Iranian arms deliveries to Hizballah; the arms are offloaded in Damascus and trucked into Lebanon.²⁷ The reported shipments have included Stingers obtained by Iran in Afghanistan, mortars that can reach the Israeli city of Haifa if fired from southern Lebanon, and, in 2002, over 8,000 Katyusha rockets, according to Israeli leaders.²⁸ One recent report said Iran supplied Hizballah with the unmanned aerial vehicle (UAV) that Hizballah briefly flew over the border with Israel on November 7, 2004.²⁹

On March 11, 2003, an Argentinian judge issued arrest warrants for four Iranian diplomats, including former Intelligence Minister Ali Fallahian, for alleged

²⁷ Wright, Robin. "U.S. Blocks A Key Iran Arms Route to Mideast." *Los Angeles Times*, May 6, 2001.

²⁸ "Israel's Peres Says Iran Arming Hizbollah." *Reuters*, February 4, 2002.

²⁹ Kahwaji, Riad and Barbara Opall-Rome. "Hizbollah's UAV." *Defense News*. November 15, 2004.

complicity in the July 18, 1994 bombing of a Jewish community center in Buenos Aires, which killed 85. Hizballah is believed to have committed the act, as well as the March 17, 1992 bombing of Israel's embassy in that city.

Relations With Central Asia and the Caspian. Iran's policy in Central Asia has thus far emphasized economic cooperation over Islamic ideology, although it has sometimes become assertive in the region, particularly against Azerbaijan. That country's population, like Iran's, is mostly Shiite Muslim, but Azerbaijan has been ruled by secular leaders who do have generally repressed Islamic expression. 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). In July 2001, Iranian warships and combat aircraft threatened a British Petroleum (BP) ship on contract to Azerbaijan out of an area of the Caspian Iran considers its own. The United States called that action provocative, and it offered new border security aid and increased political support to Azerbaijan. Iran and Armenia, an adversary of Azerbaijan, agreed on expanded defense cooperation in early March 2002. Iran-Azerbaijan tensions eased somewhat in conjunction with the mid-May 2002 visit by Azerbaijan's then President Heydar Aliyev, but there was little evident progress on a bilateral division of their portions of the Caspian.

Afghanistan/Al Qaeda. Iran wants to exert influence over post-Taliban Afghanistan, but the presence of some top Al Qaeda leaders in Iran suggests that Iran might see that group as a potentially ally or source of leverage over the United States. 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 by offering the United States search and rescue of any downed service-persons and the transshipment to Afghanistan of humanitarian assistance. Iran has since moved to restore Iran's traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate, and it reportedly has been expressing major objections to the U.S. use of Shindand air base in western Afghanistan. U.S. aircraft began using the base in September 2004 in connection with the downfall of local Afghan strongman Ismail Khan, who was Herat province governor and who previously had controlled the base. (See CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy.*)

Although Iran is not a natural ally of Al Qaeda — largely on the grounds that Al Qaeda is an orthodox Sunni Muslim organization — there have been press reports

and U.S. official statements since January 2002 that hardliners in Iran have been harboring, or at least not aggressively moving to arrest, senior Al Qaeda operatives who have fled Afghanistan.³⁰ These figures are purported to include Al Qaeda spokesman Sulayman Abu Ghaith, top operative Sayf Al Adl,³¹ and possibly Osama bin Laden's son, Saad. Some accounts say the operatives who are in Iran have been able to contact associates outside Iran;³² assertions to this effect were made by U.S. officials after the May 12, 2003 bombings in Riyadh, Saudi Arabia against four expatriate housing complexes and believed perpetrated by Al Qaeda. The 9/11 Commission says several of the September 11 hijackers and other plotters, possibly with some official help, might have transited Iran, but the report does not assert that the Iranian government cooperated with or knew about the plot. In response to reports of the 9/11 Commission's findings, President Bush said the United States would continue to investigate possible ties between Iran and Al Qaeda.

Iran has tried to head off some of the criticism. On July 23, 2003, Iranian officials, for the first time, asserted Iran had "in custody" senior Al Qaeda figures. Iran said in late January 2004 that it would try the high-ranking Al Qaeda members in Iran, but U.S. officials called on Iran to fulfill its "international obligations in the global war on terrorism" by turning them over to their countries of origin for trial. Hardliners in Iran might want to support or protect Al Qaeda activists as leverage against the United States and its allies. Some reports say Iran might want to exchange them for a U.S. hand-over of PMOI activists under U.S. control in Iraq. In March 2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban, pro-Al Qaeda Afghan faction leader. The expulsion followed a February 24, 2002, visit to Iran by Afghan leader Hamid Karzai; the two countries agreed to broad cooperation. Iran froze Hikmatyar's assets in Iran in January 2005.

U.S. Policy Responses

The February 11, 1979, fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations, but there have been several periods since 1997 when a significant and sustained thawing appeared imminent. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980, and the two countries had only limited and mostly indirect official contact thereafter. An exception was the abortive 1985-86 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hizballah in Lebanon (the so-called "Iran-Contra Affair"). Despite the Iran-Contra Affair, U.S. policy throughout most of the 1980s featured a marked tilt toward Iraq in the 1980-88 Iran-Iraq war. The tilt included U.S. diplomatic attempts to block conventional arms sales to Iran, providing

³⁰ Keto, Alex. "White House Reiterates Iran Is Harboring Al Qaeda." *Dow Jones Newswires*, May 19, 2003.

³¹ Gertz, Bill. "Al Qaeda Terrorists Being Held by Iran." *Washington Times*, July 24, 2003.

³² Gertz, Bill. "CIA Points to Continuing Iran Tie to Al Qaeda." *Washington Times*, July 23, 2004.

battlefield intelligence to Iraq,³³ and, during 1987-88, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks.

The end of the Iran-Iraq war in August 1988 appeared to lay the groundwork for a reduction in U.S.-Iran hostility. In his January 1989 inaugural speech, President George H.W. Bush said that, in relations with Iran, “goodwill begets goodwill,” holding out the prospect for better relations if Iran helped obtain the release of U.S. hostages held by pro-Iranian groups such as Hizballah in Lebanon. Iran reportedly did assist in obtaining the release of all U.S. and other Western hostages in Lebanon by December 1991, but no substantial thaw followed, possibly because Iran continued to back Hizballah and other groups opposed to the U.S.-sponsored Middle East peace process. The George H.W. Bush Administration devoted substantial attention to that process, organizing the October 1991 Madrid Conference that brought Israel to the table with Syria, Lebanon, Jordan, and the Palestinians.

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

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

Bush Administration Policy and Options

Four months after the September 11, 2001 attacks, President Bush named Iran as part of an “axis of evil” in his January 2002 State of the Union message, even though there has been no evidence Iran was involved in those attacks. However, to date, the Bush Administration has continued the main thrust of Clinton Administration efforts to engage Iran while at the same time trying to limit Iran’s strategic capabilities through economic sanctions. However, at the start of President

³³ Sciolino, Elaine. *The Outlaw State: Saddam Hussein’s Quest for Power and the Gulf Crisis*. New York: John Wiley and Sons, 1991. P. 168.

Bush's second term, Iran's stepped up nuclear activity has stimulated consideration within the Administration of new options — pressuring Iran economically and diplomatically, acting against it directly including possibly militarily, promote a change of regime, or undertaking diplomatic engagement.

Regime Change Policy? Some believe that only a change of regime would reduce substantially the strategic threat from Iran, because the current regime harbors ambitions fundamentally at odds with the United States and its values. Many question the prospects of success for this option, short of all-out-U.S. military invasion, because of the weakness of opposition groups committed to major change of Iran's regime. Providing overt or covert support to anti-regime organizations, in the view of many experts, would not make them materially more viable or attractive to Iranians. Others question whether regime change, even if achievable, could succeed in time to prevent Iran's acquiring a nuclear weapons capability.

There has been occasional discussion of a regime change option for Iran for many years. According to many observers, the United States did provide some funding to anti-regime groups, mainly pro-monarchists, during the 1980s.³⁴ After a period of suspension of such assistance, in 1995, the Clinton Administration accepted a House-Senate conference agreement to include \$18-\$20 million in funding authority for covert operations against Iran in the FY1996 Intelligence Authorization Act (H.R. 1655, P.L. 104-93), according to a *Washington Post* report of December 22, 1995. The Clinton Administration reportedly focused the covert aid on changing the regime's behavior, rather than its overthrow. The conference report on H.R. 2267 (H.Rept. 105-405), the FY1998 Commerce/State/ Justice appropriation, provided an initial \$4 million for a "Radio Free Iran," to be run by Radio Free Europe/Radio Liberty (RFE/RL). The radio, which the Administration called the Farsi service of RFE/RL, began operations in Prague on October 31, 1998, and has become, as of December 2002, Radio Farda ("Tomorrow" in Farsi), which broadcasts nearly around the clock. A U.S.-sponsored TV broadcast service to Iran, run by the Voice of America (VOA), began operations on July 3, 2003. There reportedly is consideration of increasing the broadcasts to three hours per day from the current 30 minutes per day.

The Bush Administration has shown some attraction to the regime change option since the September 11, 2001 attacks, but it has not become U.S. policy. On July 12, 2002, President Bush issued a statement supporting those Iranians demonstrating for reform and democracy, a message he reiterated on December 20, 2002, when he inaugurated a new U.S. radio broadcast to Iran, Radio *Farda* (see above). The statements appeared to signal a shift in U.S. policy from attempting to engage and support Khatemi to publicly supporting Iranian reformers and activists, some of whom believed Khatemi has made insufficient progress toward reform. However, support within the Administration for a regime change policy appeared to diminish somewhat in 2003, possibly because of the U.S. difficulty in stabilizing Iraq. On October 28, 2003, Deputy Secretary of State Armitage testified before the Senate Foreign Relations Committee that the United States "does not have a regime change policy toward Iran."

³⁴ CRS conversations with U.S. officials responsible for Iran policy. 1980-1990.

President Bush's inaugural address (January 20, 2005) and his State of the Union message (February 2, 2005) suggested that the Administration, in its second term, might take further steps toward this option. In the State of the Union message, he said "And to the Iranian people, I say tonight: as you stand for your own liberty, America stands with you." On her visit to Europe in early February 2005, Secretary of State Rice said "I don't think that the unelected mullahs who run that regime are a good thing for the Iranian people or for the region." Some options to promote regime change said to be under consideration include increasing public criticism of the regime's human rights record, increasing U.S. broadcasting into Iran, and supporting Iranian dissidents.³⁵

Democracy/Regime Change Legislation and Funding. The issue of regime change and support for Iranian dissidents has been discussed in Congress; some Members have stated a clear preference for a regime change policy. 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." In the 108th Congress, a Senate bill, S. 1082, introduced by Senator Sam Brownback, was interpreted as urging support for ideas associated with the son of the late Shah; it calls for the use of some U.S. funds for the holding of an internationally-monitored democratic referendum in Iran. A House bill (H.R. 2466), introduced by Representative Brad Sherman, contained similar provisions and added sections reimposing import sanctions on luxury goods from Iran. Elements of these bills, particularly a section calling on the Administration to try to block international lending to Iran, were incorporated into the House-passed version of the FY2004 foreign relations authorization bill (H.R. 1950).

On July 16, 2004, Senator Santorum introduced S. 2681, expressing the sense of Congress that U.S. policy toward Iran should be that of regime change, and authorizing \$10 million in U.S. assistance to pro-democracy groups opposed to Iran's regime. Similar legislation (H.R. 5193) was introduced by Representative Ros Lehtinen on September 30, 2004, although without stipulating a specific level of U.S. assistance to pro-democracy groups in Iran. That bill also contains provisions pertaining to the Iran-Libya Sanctions Act (see below). Representative Ros Lehtinen re-introduced her bill in the 109th Congress (H.R. 282), and Senator Santorum introduced a bill (S. 333) containing many of the same provisions as in his bill in the 108th Congress.

Congressional sentiment for democracy promotion in Iran manifested in foreign aid appropriations for FY2004 and 2005. The FY2004 foreign operations appropriation provides (H.R. 2673, P.L. 108-199) provides "notwithstanding any other provision of law" up to \$1.5 million for "making grants to educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran." The \$1.5 million "soft earmark" is being used for Iran-related programs run through the National Endowment for Democracy (NED), funded by the State Department's Bureau of

³⁵ Strobel, Warren. "U.S. Planning to Put More Pressure on Iran." *Miami Herald*, December 9, 2004.

Democracy and Labor (DRL). A provision of the conference report on H.R. 4818, (P.L. 108-447) the FY2005 foreign aid appropriation, provides \$3 million for similar democracy promotion efforts in Iran.

The use of U.S. funds to support Iranian dissidents and other anti-Iranian regime activities appears to incur complications. The State Department has determined that Iran democracy promotion funds cannot be channeled through the Middle East Partnership Initiative, because that program's funds are Economic Support Funds (ESF) and cannot be used in Iran. The State Department report on U.S. efforts to promote democracy and human rights abroad (2003-2004) implies that U.S. efforts to do so are somewhat limited by lack of U.S. access to Iran, and it states that "Iran is currently ineligible for most official programmatic assistance from the United States pursuant to U.S. law." Another issue is whether such democracy promotion efforts would be interpreted within Iran as U.S. meddling — a sensitive issue in Iran — and whether these programs would reach sufficient numbers of Iranians to be effective.

Engagement? Some U.S. officials have long believed that a policy of engagement would be more successful in curbing Iran's nuclear program and support for terrorist groups. The Bush Administration has pursued this option to some extent, and, although talks are not being conducted now, the Administration has not ruled out future talks with Iran. On the other hand, suggesting the Administration is not making major steps to resume dialogue, the Administration has said it will not join the EU-3 nuclear talks with Iran. Suggesting that many experts see merit in dialogue with Iran, two late 2004 research institute reports, one by the Council on Foreign Relations and one by the Atlantic Council, recommended further pursuit of an engagement strategy with Iran, arguing that engagement could help promote regional stability and progress on issues in which there is U.S.-Iran agreement.³⁶

In May 2003, both countries publicly acknowledged that they were conducting direct talks in Geneva on Afghanistan and Iraq,³⁷ marking the first confirmed direct dialogue between the two countries since the 1979 revolution. However, the United States broke off the dialogue following the May 12, 2003, bombing in Riyadh that U.S. officials say was planned by Al Qaeda activists in Iran.

Following the May 2003 breaking off of dialogue, in December 2003, the United States resumed some contacts with Iran to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran. Subsequently, major U.S. newspapers reported that the Administration asked Iran if it would welcome a high-level delegation to Iran, headed by Senator Elizabeth Dole and a Bush family member, to build on the apparent goodwill generated by U.S. earthquake relief efforts. However, Iran rebuffed the offer of the Dole mission, and a bilateral dialogue did not restart. A congressional resolution, H.Res. 526, passed March 2, 2004, by a vote of 381-0, expressed sympathy for the Bam earthquake victims.

³⁶ For text of the Council on Foreign Relations study, see [http://www.cfr.org/pdf/Iran_TF.pdf].

³⁷ Wright, Robin. "U.S. In 'Useful' Talks With Iran." *Los Angeles Times*, May 13, 2003.

Further tentative moves toward renewed engagement came in 2004. Several Members of Congress and congressional staff had dinner with visiting Iranian Representative to the United Nations Mohammad Javad Zarif. At the dinner, U.S.-Iran relations were discussed, as was a trip to Iran by congressional staff.³⁸ Following public discussion of the proposed staff visit, Iran's Foreign Minister Kharrazi said such a visit is "not on our agenda" at this time.³⁹ In October 2004, Librarian of Congress James Billington visited Iran. The Bush Administration was informed in advance by the Librarian of his visit and said it viewed the visit as a cultural exchange consistent with U.S. policy. The main purpose of his visit was to begin an exchange of materials with Iran's national library and included cultural meetings with Iranian film experts, poets, and architects. In November 2004, the United States backed the invitation of Iran to a regional conference in Egypt to discuss how to stabilize Iraq, although then Secretary of State Powell did not hold bilateral talks with Iran during that conference.

Military Action? As concerns over Iran's nuclear program have grown, public discussion of a military option (conducted either by the United States or another country, such as Israel) against Iran's nuclear facilities has increased. Among outside experts, there has been speculation since the U.S.-led war against Iraq (begun March 19, 2003) that the United States might undertake major military action against other perceived threats such as Iran or Syria. However, all-out U.S. military action to remove Iran's regime appears to be unlikely and not under serious consideration by the Administration, although journalist Seymour Hersh reported that there is planning for such an attack, should the President order such action.⁴⁰ Most experts believe U.S. forces are likely spread too thin, including about 140,000 deployed in Iraq, to undertake it at this time and that U.S. forces would be greeted with hostility by most Iranians.

Some experts believe that the United States should focus first and foremost on Iran's nuclear capability, and that limited military action, such as air strikes against suspected nuclear sites, could be a potentially useful option to set back Iran's nuclear program, although some believe Iran might retaliate through terrorism or other means. Others question whether or not the United States is aware of all relevant sites, and that Iran might have shielded some of its nuclear infrastructure from a strike. The January 2005 *New Yorker* piece by Seymour Hersh, referenced above, asserts that President Bush has authorized covert special forces missions into Iran to assess potential nuclear-related targets for a U.S. air strike. The Department of Defense criticized the credibility of the article, but it did not dispute this particular fact or other specific facts in it. Expressing particular fear that Iran might achieve a nuclear weapons capability, some Israeli officials have openly discussed the possibility that Israel might strike Iran's nuclear infrastructure, although Israel does not necessarily have the capabilities that the United States possesses that could conceivably make such action effective. On January 20, 2005, Vice President

³⁸ Schweid, Barry. "U.S. Congressional Staffers to Visit Iran." *Associated Press*, January 30, 2004. The CRS author of this report participated in the dinner.

³⁹ Fox News, February 1, 2004.

⁴⁰ Hersh, Seymour. *The Coming Wars*. The New Yorker, January 17, 2005.

Cheney gave a radio interview suggesting that Israel might decide to undertake such a strike if the United States did not do so first. On her February 2005 visit to Europe, Secretary of State Rice also raised the possibility of military action; she said such action “is not on the agenda at this time,” raising the potential for the option to be considered later. On November 5, 2004, British Foreign Secretary Jack Straw said the United Kingdom could not see a circumstance that would allow it to support such an air strike by the United States, Israel, or any other force, on Iran at this time.

U.S. military analysts note that U.S. forces in the Gulf region could potentially be used against Iran, if the President so decides. Related options, which might involve U.S. naval forces in the Gulf, would be to institute searches of Iran-bound vessels suspected of containing WMD-related technology, or placing nuclear-armed weapons aboard U.S. ships operating in the Gulf as a signal of strength to Iran. The Administration has discussed with its allies some measures that could be used to block North Korea’s technology exports and alleged drug smuggling,⁴¹ 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.⁴²

International Sanctions? Iran is not subject to U.N. sanctions. However, if the November 2004 European-Iran agreement on nuclear issues breaks down or fails to lead to a permanent agreement, the Bush Administration is likely to renew its push to refer Iran to the U.N. Security Council for consideration of international sanctions. During her visit to Europe in February 2005, Secretary of State Rice said that the Bush Administration believes that the EU-3 should agree with the United States that Iran should be reported to the Security Council — presumably for the imposition of sanctions — if it fails to uphold any aspect of its new nuclear pledges. At the same time, the Administration has, for now, refused to offer to drop U.S. sanctions on Iran (see below) as part of a permanent nuclear deal between the EU-3 and Iran. Some experts believe that stance might adversely affect the prospects for achieving a permanent agreement.

If international sanctions are considered, some options that have been used or considered in similar cases could be imposing an international ban or limitations on purchases of Iranian oil or other trade, mandating reductions in diplomatic exchanges with Iran or flight travel to and from Iran, and limiting further lending to Iran by international financial institutions. It is not certain that the U.N. Security Council or the boards of directors of international financial institutions would back such proposals, particularly a ban on purchases of Iranian oil, given a tight oil market.

⁴¹ Kraley, Thomas. “U.S. Asks Aid Barring Arms From Rogue States.” *Washington Times*, June 5, 2003.

⁴² “British Commander Calls for More Cooperation With Iran in Persian Gulf.” *BBC*, May 3, 2004.

U.S. Sanctions

Since the November 4, 1979 seizure of the U.S. hostages in Tehran, unilateral U.S. economic sanctions have formed a major part of U.S. policy toward Iran.⁴³ To date, few, if any, other countries have followed the U.S. lead by imposing sanctions on Iran, and no U.N. sanctions exist on that country. Some experts believe that U.S. sanctions have hindered Iran's economy, forcing it to curb spending on conventional arms purchases, but others believe that sanctions have had only marginal effect, and that foreign investment has flowed in despite U.S. sanctions.⁴⁴ Those who take the latter view maintain that Iran's economic performance fluctuates according to the price of oil, and far less so from other factors. Because oil prices remain relatively high, Iran's economy grew about 4% in 2003, and the economy is doing well in 2004 now that oil prices exceed \$40 per barrel. Iran's per capita income is estimated to now exceed \$2,000 per year, up from about \$1,700 in 2002. Most analysts seem to agree that sanctions would have had a far greater effect on Iran if they were multilateral or international.

Terrorism/Foreign Aid Sanctions. In January 1984, following the October 1983 bombing of the U.S. Marine barracks in Lebanon, believed perpetrated by Hizballah, Iran was added to the so-called "terrorism list." The terrorism list was established by Section 6(j) of the Export Administration Act of 1979, imposing economic sanctions on countries determined to have provided repeated support for acts of international terrorism. The designation bans direct U.S. financial assistance and arms sales, restricts sales of U.S. dual use items, and requires the United States to oppose multilateral lending to the designated countries. Separate from its position on the terrorism list, successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) and indirect assistance (U.S. contributions to international organizations that work in Iran). Section 307 of the Foreign Assistance Act of 1961 (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, and require proportionate cuts if these institutions work in Iran. Iran also has been designated every year since 1997 as not cooperating with U.S. anti-terrorism efforts, under the Anti-Terrorism and Effective Death Penalty Act (P.L. 104-132). That act penalizes countries that assist or sell arms to terrorism list countries.

U.S. regulations do not bar disaster relief and the United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997), and another \$350,000 worth of aid to the victims of a June 22, 2002 earthquake. (The World Bank provided some earthquake related lending as well, as discussed below.)

Bam Earthquake. The United States provided considerable assistance to the victims of the December 2003 earthquake in Bam, Iran, which might have killed as many as 50,000 people and destroyed 90% of Bam's buildings. In response, the United States flew in 68,000 kilograms of supplies to Bam, flown in by U.S. military

⁴³ On November 14, 1979, President Carter declared a national emergency with respect to Iran, renewed every year since 1979.

⁴⁴ "The Fight Over Letting Foreigners Into Iran's Oilfields." *The Economist*, July 14, 2001.

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

Proliferation Sanctions. Several sanctions laws are unique to Iran. The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran “destabilizing numbers and types of conventional weapons,” as well as WMD technology. The Iran Nonproliferation Act (INA, P.L. 106-178) authorizes sanctions on foreign entities that assist Iran’s WMD programs. It 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 international space station and for certain space station hardware. Unless the Administration determines that Russian entities are no longer violating the act, 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. The Administration, and NASA in particular, says it is looking for ways, consistent with the act, to continue to access the international space station.⁴⁵

Reflecting an Administration approach to proceed with rather than overlook alleged violations or waive sanctions, the Bush Administration has imposed sanctions on numerous entities, including from North Korea, China, India, Armenia, Taiwan, and Moldova. These entities were sanctioned under the INA, the Iran-Iraq Arms Non-Proliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran. In late May 2003, the Bush Administration sanctioned a major Chinese industrial entity, Norinco, for allegedly selling missile technology to Iran. On July 4, 2003, an additional Chinese entity, the Taiwan Foreign Trade General Corporation, was sanctioned under the INA. On September 17, 2003, the Administration imposed sanctions on a leading Russian arms manufacturer, the Tula Instrument Design Bureau, for allegedly selling laser-guided artillery shells to Iran.

On April 7, 2004, the Administration announced sanctions on 13 entities under the INA: Baranov Engine Building Association Overhaul Facility (Russia); Beijing Institute of Opto-Electronic Technology (China); Belvneshpromservice (Belarus); Blagoja Smakoski (Macedonia); Changgwang Sinyong Corp. (North Korea); Norinco

⁴⁵ Gugliotta, Guy. “Long Arm of Foreign Policy.” *Washington Post*, August 25, 2004.

(China); China Precision Machinery Import/Export Corporation (China); Elmstone Service and Trading (UAE); Goodly Industrial Co. (Taiwan); Mikrosam (Macedonia); Oriental Scientific Instruments Corp. (China); Vadim Vorobey (Russia); and Zibo Chemical Equipment Plant (China).

In December 2004 and January 2005, INA sanctions were imposed on fourteen more entities, mostly from China, for alleged supplying of Iran's missile program. Many, such as North Korea's Changgwang Sinyong and China's Norinco and Great Wall Industry Corp, have been sanctioned several times previously. Other entities sanctioned included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.

The FY2005 foreign aid appropriation (H.R. 4818, P.L. 108-447) would punish the Russian Federation for assisting Iran. The law withholds 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran's civilian nuclear and ballistic missiles programs. Similar sanctions against the Russian government for assisting Iran have been enacted in previous years.

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 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.

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

Following a 1998 application by a U.S. firm to sell Iran agricultural products, and in the context of Clinton Administration and congressional reviews of U.S. unilateral sanctions policies, the Clinton Administration announced in April 1999 that it would license, on a case-by-case basis, commercial sales of food and medical products to certain countries on which unilateral U.S. trade bans are in place (Iran, Libya, and Sudan). Under regulations issued in July 1999, private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees are

available and U.S. exporters are not permitted to deal directly with Iranian banks. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive. The FY2001 agriculture appropriations (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration has provided the credit guarantees.

In the March 2000 speech mentioned above, the trade ban was eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar; regulations governing the imports were issued in April 2000. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (over 300%) dampened imports of that product. In January 2003, the tariff on roasted pistachios was lowered to 22% and on raw pistachios to 163%. In December 2004, U.S. sanctions were eased slightly to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan).

Some U.S. companies have come under scrutiny for indirect dealings with Iran. On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, to drill for gas in Phases 9 and 10 of South Pars. Under the deal, Halliburton would reportedly provide its services through the Iranian partner, Oriental Kish, leaving unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban, or ILSA.⁴⁶ Because of criticism within the United States, Halliburton announced on January 28, 2005, that it would withdraw all employees from Iran and end business activities there. One week later, GE announced it would seek no new business in Iran. Through Italian, Canadian, and French subsidiaries, GE has been selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects.

The Iran-Libya Sanctions Act (ILSA). The Iran-Libya Sanctions Act (ILSA, H.R. 3107, P.L. 104-172, signed August 5, 1996) sanctions foreign investment of more than \$20 million in one year in Iran or Libya's energy sector. It was to sunset on August 5, 2001, but it was renewed for another five years (H.R. 1954, P.L. 107-24, signed August 3, 2001). The renewal law required an Administration report on its effectiveness within 24-30 months, which did not recommend repeal. No sanctions have been imposed under ILSA, although three companies involved in one project (South Pars) were deemed in violation in September 1998; but sanctions were waived.

A number of other investments have remained "under review" for ILSA sanctions since 1999. Those investment agreements are discussed in CRS Report RS20871, *The Iran-Libya Sanctions Act*. Among the major new agreements is an agreement signed between Iran and China's Sinopec in October 2004. Under that agreement, Sinopec will develop Iran's Yadavaran oil field in return for 150,000 barrels per day of Iranian oil and 10 million tons per year of liquified natural gas (LNG). In May 2004 India's Petronet reached agreement to buy LNG from Iran. On

⁴⁶ "Iran Says Halliburton Won Drilling Contract." *Washington Times*, January 11, 2005.

November 2, 2004, the state-owned Indian Oil Company agreed to develop part of Iran's South Pars gas field and build an LNG plant, a deal valued at about \$3 billion. On January 7, 2005, three Indian firms, led by Oil and Natural Gas Corporation, agreed to buy LNG from Iran over the next 25 years and to invest in Iran's gas fields. Some new French energy investments in Iran are part of a wave of broader French investment in and sales of consumer products to Iran: French exports to Iran have doubled over the past five years to about \$2.5 billion per year.⁴⁷

Iran is also signing agreements to sell gas to new customers. These arrangements would not appear to constitute an "investment" in Iran's energy sector. On March 18, 2004, a Chinese state oil trading firm said it had signed a deal with Iran to import more than 110 million tons of liquified natural gas from Iran over 25 years, a deal valued at \$25 billion. Iran said in December 2004 it expects to begin exporting LNG from South Pars by 2009, with customers to include India and China. Other potential customers include Bahrain, the UAE, and Kuwait. Iran, India, and Pakistan are also discussing construction of a natural gas pipeline that would enable Iran to sell gas to those markets.

On October 20, 2003, Representative Ileana Ros-Lehtinen introduced the "ILSA Enhancement and Compliance Act" (H.R. 3347) intended to make it more difficult for the Administration to waive sanctions on companies determined to have violated its provisions. The legislation would also repeal the sunset (expiration) provision of ILSA. (ILSA sanctions with respect to Libya were terminated on April 23, 2004, on the grounds that the President certified Libya had complied with U.N. Security Council resolutions related to the December 21, 1988, bombing of Pan Am Flight 103.) Similar ILSA-related provisions are contained in another bill introduced by Representative Ros-Lehtinen on September 30, 2004 (H.R. 5193). That bill also contains provisions recommending new U.S. aid to pro-democracy groups in Iran, as discussed above, and it has been re-introduced in the 109th Congress (H.R. 282). Another bill, (S. 299), introduced February 7, 2005, by Senator Wyden, would make U.S. government information on investments in Iran's energy sector available to the public.

Caspian/Central Asian Energy Routes Through Iran. The U.S. trade ban permits U.S. companies to apply for licenses to conduct "swaps" of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999. The Bush Administration continues to oppose, and to threaten imposing ILSA sanctions on, pipeline projects through Iran. U.S. policy has been to promote construction of a pipeline that would cross the Caspian Sea and terminate in Ceyhan, Turkey (Baku-Ceyhan pipeline); the policy appeared to bear fruit when four Caspian nations (Turkey, Georgia, Azerbaijan, and Kazakhstan) signed an agreement embracing Baku-Ceyhan on November 18, 1999. Regional and corporate support for the project subsequently gained momentum, pipeline construction began, and the pipeline is expected to begin operations in early-mid 2005. On the other hand,

⁴⁷ Daragahi, Borzou. "France Steps Up Its Investments in Iran." *New York Times*, June 23, 2004.

despite U.S. pressure not to import Iranian gas, in December 2001 Turkey began doing so through a new cross-border pipeline, under an August 1996 agreement.

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

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

U.S.-Iran Assets Disputes. Iran views the issue of outstanding disputed commercial claims and U.S.-blocked assets as an obstacle to improved relations. A U.S.-Iran Claims Tribunal at the Hague is arbitrating cases resulting from the break in relations and freezing of some of Iran’s assets following the Iranian revolution. The major cases yet to be decided center on hundreds of Foreign Military Sales cases between the United States and the Shah’s regime, which Iran claims it paid for but were unfulfilled. About \$400 million in proceeds from the resale of that equipment is in a DOD account, and about \$22 million in Iranian diplomatic property remains blocked. The assets issue moved to the forefront following several U.S. court judgments against Iran for past acts of terrorism against Americans, filed under the Anti-Terrorism and Effective Death Penalty Act of 1996. For information on these suits, see CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*.

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

Multilateral Policies Toward Iran

A cornerstone of the policies of successive U.S. administrations has been to persuade U.S. allies to cooperate with the United States to contain Iran, including imposing their own sanctions on that country. As noted, those U.S. efforts have generally been unsuccessful, although some U.S. allies have, in the past, denied Iran economic benefits as an expression of opposition to Iran’s policies. The involvement of several European countries in trying to curb Iran’s nuclear program has been analyzed above.

During 1992-1997, the European Union (EU) countries maintained a policy of “critical dialogue” with Iran, asserting that dialogue and commerce with Iran could moderate Iran’s behavior. The United States did not oppose those talks but maintained that the EU’s dialogue would not change Iranian behavior. The dialogue was suspended immediately following the April 1997 German terrorism trial (“Mykonos trial”) that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. Alongside Khatemi’s accession, the EU-Iran dialogue formally resumed in May 1998, and U.S.-allied differences on Iran narrowed. Khatemi undertook state visits to several Western countries, including Italy (March 1999), France (October 1999), Germany (July 2000), and Japan (November 2000); the United States publicly welcomed these visits.

On December 12, 2002, Iran and the EU began formal negotiations on a trade pact that would lower the tariffs or increase quotas for Iranian exports to the EU countries, with some linkage to Iran addressing EU concerns on Iran’s human rights practices and terrorism sponsorship. However, revelations about Iran’s possible nuclear weapons ambitions caused the EU to announce, in July 2003, suspension of talks on a trade agreement. As noted above, the EU - Iran trade talks resumed in January 2005 in concert with negotiations on a permanent nuclear agreement. The EU has said a free trade agreement depends on more than just nuclear issues, and the EU has insisted on working group discussions on Iran’s human rights record, Iran’s alleged efforts to derail the Middle East peace process, and Iran’s record of supporting terrorism. There are also working groups on counter-narcotics, refugees, and migration issues — issues on which Iran’s record has, in some cases, been positive.

Country-Specific Policies: Britain and France. The 1998 resolution of the “Rushdie affair” to Britain’s satisfaction sparked improvement in its relations with Iran. Iran maintains that Ayatollah Khomeini’s 1989 death sentence against author Salman Rushdie cannot be revoked (his “Satanic Verses” novel was labeled blasphemous) because Khomeini is no longer alive to revoke it. On September 24, 1998, Iran’s Foreign Minister pledged to Britain that Iran would not seek to implement the sentence and opposed any bounties offered for his death. Britain then upgraded relations with Iran to the ambassadorial level. 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 October 2000, Britain began extending longer term credit (two years or greater) for exports to Iran.

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

Japan. In August 1999, Japan continued a gradual improvement in relations with Iran by announcing a resumption of Japan’s official development lending program for Iran to construct a hydroelectric dam over the Karun River. However, the \$70 million increment announced was less than Iran had wanted, and Japan said

that this tranche would close out Japan's involvement in the project. (In 1993, Japan provided the first \$400 million tranche of the overall \$1.4 billion official development loan program, but the lending was subsequently placed on hold as the United States sought to persuade its allies to pressure Iran.) In late January 2000, Japan agreed to resume medium- and long-term export credit insurance for exports to Iran, suspended since 1994. Economic relations improved further during Khatemi's November 2000 visit to Tokyo, which resulted in Iran granting Japanese firms the first right to negotiate to develop the large Azadegan field. A \$2 billion deal to develop that field, long delayed over Iran's nuclear program,⁴⁸ was signed on February 18, 2004. The consortium of Japanese firms includes Japan Petroleum Exploration Company, Inpex Corp, and Tomen Corp. Partly at U.S. urging, Japan has refused to extend to Iran new official loans.

Multilateral/International Lending to Iran. During 1994-1995, and over U.S. objections at the time, Iran's European and Japanese creditors rescheduled about \$16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling and International Monetary Fund (IMF) involvement. Iran has worked its external debt down from \$32 billion in 1997 to below \$20 billion as of March 2004, according to Iran's Central Bank. The improved debt picture has led most European export credit agencies to restore insurance cover for exports to Iran. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks. At the urging of the U.S. government, in May 2002 Moody's stopped its credit ratings service for Iran's government bonds on the grounds that performing the credit ratings service might violate the U.S. trade ban.

Section 1621 of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132) amended the Foreign Assistance Act to require the United States to vote against international loans to countries on the U.S. terrorism list. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects. To signal opposition to international lending to Iran, the FY1994 foreign aid appropriations (P.L. 103-87) cut the Administration's request for the U.S. contribution to the World Bank by the amount of those loans. That law, as well as the foreign aid appropriations for FY1995 (P.L. 103-306) and FY1996 (P.L. 104-107), would have significantly reduced U.S. payments to the Bank if it had provided new loans to Iran.

By 1999, Iran's moderating image had led the World Bank to consider new loans. In May 2000, the United States was unsuccessful in obtaining further delay on a vote on new lending for Iran, and its allies outvoted the United States in approving \$232 million in loans for health and sewage projects. Twenty-one of the Bank's twenty four governors voted in favor, and France and Canada abstained. Despite the required U.S. opposition, on May 10, 2001, the World Bank's executive directors voted to approve a two-year economic reform plan for Iran that envisions \$775 million in new Bank loans. In April 2003, the Bank approved \$20 million in

⁴⁸ "Japan Still in Iran Oil Talks, Despite U.S." *Reuters*, June 30, 2003.

loans for environmental management, and in June 2003, it approved a loan for \$180 million for earthquake assistance. On October 29, 2003, a Treasury Department official, Bill Schuerch, testified before the House Financial Services Committee that the United States would continue to try to block new World Bank loans to Iran, but that the United States has not been successful in blocking recent loans and could not guarantee that outcome. In 1999-2000, Iran had asked the International Monetary Fund for about \$400 million in loans (its quota is about \$2 billion) to help it deal with its trade financing shortfalls. However, Iran balked at accepting IMF conditionality, and there was no agreement.

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

WTO Membership. The Bush Administration said in July 2001 that U.S. opposition to Iran's membership in the World Trade Organization (WTO) was "under review." On every occasion since then (sixteen occasions in total), most recently in December 2004, the WTO has acquiesced to U.S. wishes by rejecting Iran's application to launch entry talks with the WTO. As noted above, the European countries negotiating with Iran on nuclear issues have put on offer support for Iran's entry into the body as part of an agreement that might be reached. The United States has not, to date, agreed to support Iran's entry into the WTO as part of a nuclear deal with the EU-3, although the EU-3 would probably expect such U.S. support if a deal were reached.

Conclusion

Mistrust between the United States and Iran's Islamic regime has run deep for over two decades. Many experts say that all factions in Iran are united on major national security issues and that U.S.-Iran relations might not improve unless or until the Islamic regime is removed or moderates substantially. Some believe that a crisis is likely if Iran does not fully and unambiguously abandon any efforts toward achieving a nuclear weapons capability.

Others say that, despite the victory of conservatives in 2004 parliamentary elections, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein. Those who take this view say that Iran is far more secure now that the United States has removed these two regimes, and it might be more willing than previously to accommodate U.S. interests in the Gulf. Others say that the opposite is more likely, that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran might redouble its efforts to develop WMD and other capabilities to deter the United States.