Order Code IB93033

Issue Brief for Congress
Received through the CRS Web

Iran: Current Developments and U.S. Policy

Updated May 9, 2002

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CONTENTS

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SUMMARY

Even before Iran's tacit cooperation with post-September 11 U.S. efforts to defeat Afghanistan's Taliban regime, signs of moderation in Iran had stimulated the United States to try to engage Iran in official talks. Iran, still split between conservatives and reformers loyal to President Mohammad Khatemi, who was elected in May 1997 and overwhelmingly reelected on June 8, 2001, has not accepted to date. However, recent reports of Iranian meddling in post-Taliban Afghanistan and Iran's intercepted January 2002 shipment of arms allegedly to the Palestinian Authority have reversed the warming trend. Iran was grouped with North Korea and Iraq as part of the "axis of evil" identified in President Bush's January 29, 2002 State of the Union message.

The President has identified Iran's efforts to acquire weapons of mass destruction and delivery means, coupled with its support of terrorist groups, as key U.S. concerns. Iran's ballistic missile program has made major strides over the past few years, with the help of several foreign suppliers, and its nuclear program is advancing with Russia's help.

Iran has opposed the U.S.-led Middle East peace process since its inception in October 1991. It continues to provide material support to Hizballah in Lebanon and to Islamic-oriented Palestinian groups that oppose the Arab-Israeli peace process, such as Hamas and Palestinian Islamic Jihad. All Iranian factions have strongly supported Palestinian violence against Israel since September 2000.

Iran's human rights practices, particularly its treatment of the Baha'i and the Jewish communities, are also a major concern, although neither the Clinton nor the Bush Administrations cited progress as a specific condition for an improvement in relations. The Bush Administration has identified Iran's modernization of its conventional forces as a potential threat to U.S. interests in the Persian Gulf, but others argue that the buildup has been minor and that Iran still is relatively poorly equipped.

Although the Bush Administration says it is still willing to hold a dialogue with Iran, the focus of current U.S. policy appears to be a return to the containment policy that prevailed during the early part of the Clinton Administration. During the first term of the Clinton Administration, as part of a policy of "dual containment" of Iran and Iraq, President Clinton imposed a ban on U.S. trade and investment in Iran in 1995, and a 1996 law imposed sanctions on foreign investment in Iran's energy sector (Iran-Libya Sanctions Act, ILSA).

In keeping with a 1997 policy shift toward engagement, the Clinton Administration and Congress later eased sanctions to allow U.S. exports to Iran of food and medical supplies and importation from Iran of goods such as carpets and caviar. The United States has consistently worked with its allies to prevent arms and advanced technology sales to Iran and to limit Iran's influence over regional energy flows. U.S. purchases of Iranian crude oil and U.S. company investments in Iran remain barred. ILSA was renewed for another 5 years on August 3, 2001 (H.R. 1954, P.L. 107-24).

MOST RECENT DEVELOPMENTS

Legislation to renew the Iran-Libya Sanctions Act for another 5 years was signed on August 3, 2001 (H.R. 1954, P.L. 107-24). The thawing of U.S.-Iran relations reversed in January 2002 over revelations that Iran had sold arms to the Palestinian Authority and over Iranian efforts to exert influence on the new Afghan government. In his January 29, 2002 State of the Union message, President Bush named Iran, along with Iraq and North Korea, as part of an "axis of evil," constituting major potential threats to U.S. national security.

BACKGROUND AND ANALYSIS

The power struggle in Iran between revolutionary purists and more moderate reformists colors Iran's domestic and foreign policies. President Mohammad Khatemi, who was re-elected on June 8, 2001 by a landslide 77% of the vote against nine more conservative candidates, holds a popular mandate for greater domestic freedoms. His reelection victory was larger than his 69% first win in May 1997. His supporters hold about 70% of the seats in the 290-seat Majlis (parliament) following victories in the February 18, 2000 Majlis elections. However, Khatemi has expressed frustration that his reform program has been obstructed by hardliners, including Supreme Leader Ali Khamene'i (successor to Ayatollah Khomeini), who use their control of key levers of power to prevent a loosening of domestic restrictions or moderation of foreign policy. As part of a hardline backlash since April 2000, hardliners in the judiciary have closed more than 40 reformist newspapers and imprisoned or questioned several editors and even some members of the Majlis. In February 2002 testimony, DCI George Tenet said Iran's reform movement may be "losing momentum" to the "unelected" hardliners, and, in early May 2002, Khatemi publicly criticized hardline elements for slowing his reform attempts.

Iran's Strategic Buildup

Iran is not considered a major conventional threat to the United States, but some of its weapons of mass destruction (WMD) programs, particularly medium range ballistic missiles, appear to be making significant progress. For further information, see CRS Report RL30551, *Iran: Arms and Technology Acquisitions*.

Conventional Weapons

Iran's armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard, the latter of which is populated largely by hardliners. Low oil prices and high debts slowed Iran's defense acquisitions to about $300 million per year during 1996-1999, from over $1 billion per year in the early 1990s, although purchase levels appear to be rising again. According to U.S. military officials, equipment already purchased has given Iran the ability to block the Strait of Hormuz at least temporarily, but Iran is largely lacking in ability to project power far beyond its borders. In November 2000, Russia told the United States it would no longer abide by a 1995 pledge to refrain from new conventional arms deals with Iran. On October 2, 2001, Iran and Russia signed an agreement that provides for $300 million per year in Iranian arms purchases over the next 5 years. Despite Russian assurances that the arms would be purely defensive, the systems reportedly under consideration include new MiG-29 and Sukhoi combat aircraft and anti-ship missiles, as

well as the S-300 air defense system (the Russian counterpart of the U.S. "Patriot"). See CRS Report RL31083, *Conventional Arms Transfers to Developing Nations, 1993-2000*.

Weapons of Mass Destruction (WMD)

It is partly because of Iran's attempts to acquire WMD that President Bush, in his January 29, 2002 State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea. U.S. government proliferation reports, including a February 2002 CIA report covering January - June 2001, assert that Iran is actively seeking to acquire WMD and advanced conventional weapons. Iran's programs, particularly its missile program, continue to be assisted primarily by entities in Russia, China, and North Korea. In May 2002, the President, under the Iran Nonproliferation Act of 2000 (P.L. 106-178), sanctioned companies in China, Armenia, and Moldova for alleged WMD technology sales to Iran. The foreign assistance continued despite U.S. anti-proliferation efforts through multilateral export control regimes such as the Wassenaar Arrangement, Missile Technology Control Regime, Nuclear Suppliers Group, Zangger Committee, and Australia Group. (See also CRS Report RL30408, *Weapons of Mass Destruction in the Middle East*.)

Chemical and Biological Weapons. U.S. proliferation reports state that Iran is seeking to acquire a self-sufficient chemical weapons infrastructure, that it may have some capability for biological weapons deployment, and that it has stockpiled chemical weapons, including blister, blood, and choking agents. On June 11, 2001, the Bush Administration imposed trade sanctions, in accordance with the Iran Nonproliferation Act of 2000 (P.L. 106-178) on China's Jiangsu Yongli Chemicals and Technology Import and Export Corporation for allegedly selling Iran technology not permitted for export to Iran under the Chemical Weapons Convention. Two more Chinese entities (Liyang Chemical Equipment and China Machinery and Electric Equipment Import-Export Co.) and one individual (Q.C.Chen) were sanctioned under the Act in January 2002 for alleged export to Iran of chemical and biological technology. This record 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. However, the Organization for the Prohibition of Chemical Weapons (OPCW), charged with monitoring the convention, has indicated general satisfaction with Iran's compliance thus far. OPCW toured Iran's declared chemical sites in February 1999, and Iran has made required declarations. Iran is a party to the 1972 Biological and Toxin Weapons Convention.

Missiles. Largely with Russian help, Iran is making progress in its missile program. Although two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) were either inconclusive or unsuccessful (the July 2000 test appears to have been a success), U.S. intelligence officials said publicly in August 2001 that Iran will soon "field" the Shahab-3. At least one defense publication said in mid-October 2001 that Iran had launched serial production of the Shahab-3. U.S. officials said in May 2002 that Iran's 1,200 mile range Shahab-4 could be upgraded to reach countries in Europe. An intelligence community official upgraded the missile threat from Iran, testifying on March 11, 2002, that the United States would "most likely" face an intercontinental ballistic missile threat from Iran by 2015. On June 11, 2001, the Bush Administration imposed trade sanctions on North Korean and Iranian entities under the Iran Nonproliferation Act of 2000 for alleged exports to Iran of missile technology. CIA statements in February 2002 cast doubt that China is upholding a November 2000 pledge not to export missile technology to Iran or other countries. On February 22, 2002, the *Washington Times* reported that China

had delivered HQ-7 surface-to-air missiles to Iran. Russia continues to refute U.S. allegations that Russian entities are giving Iran missile technology.

Nuclear Weapons. DCI Tenet testified in February 2002 that Iran might be able to produce enough fissile material for a nuclear weapon by late this decade, and sooner if it gets such material from outside. Russia, despite these U.S. concerns and protests, is proceeding with its January 1995 contract with Iran to complete a nuclear power plant at Bushehr, and the two countries have said it should be complete by the end of 2003 and operational by 2005. In November 2001, Russia shipped to Iran the first reactor shell of the project. There have been inconclusive Iranian and Russian statements on whether Iran will commission Russia to build additional reactors. The February 2002 CIA report to Congress, covering January - June 2001, says that some Iran-China interactions raise questions about China's adherence to its pledge to refrain from new nuclear cooperation with Iran. Iran accepts International Atomic Energy Agency (IAEA) safeguards of its known nuclear facilities, and agency visits to Iran's declared facilities since 1992 have found no evidence at the sites visited to indicate Iran is developing nuclear weapons. Iran has refused to permit an enhanced IAEA inspections program ("93+2") that would include surprise inspections to undeclared facilities, although some observers say Iran is mulling accepting this plan.

Each year since FY1998, foreign aid laws have contained provisions cutting U.S. aid to the Russian government if it continues the Bushehr project or assists Iran's ballistic missile program. No waiver was provided for either in the FY1998 or the FY2000 legislation, although the cuts do not apply to nuclear dismantlement in Russia or aid to Russia's private sector. The foreign operations appropriations for both FY2001 (P.L. 106-429) and FY2002 (conference report H.Rept. 107-345) contain a similar provision, but both increase the aid cut to 60%. The House version of the FY2002 foreign relations authorization bill, H.R. 1646, passed by the House on May 16, 2001, contains Title IX, the Iran Nuclear Proliferation Prevention Act of 2001. Virtually identical to bills introduced in the 106th and 105th congresses, the provision would make the IAEA subject to cuts in U.S. voluntary contributions if it continued technical assistance to Iran's nuclear program.

Iranian Foreign Policy and Involvement in Terrorism

Iran's continued support for terrorism contributed to President Bush's strong criticism of Iran in his State of the Union message. The State Department report on international terrorism for 2000, released April 30, 2001, states that Iran "remained the most active state sponsor of terrorism in 2000," although the report attributed that activity to two hardline institutions — the Revolutionary Guard and the Intelligence Ministry. On the other hand, Iran strongly condemned the September 11 attacks and tacitly supported the U.S. war on the Taliban and Al Qaida. (See also CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*.)

Persian Gulf

Khatemi has largely succeeded in improving relations with Iran's neighbors, particularly the six states of the Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar,

Oman, and the United Arab Emirates). Since he came into office, Iran apparently has reduced support for Shiite Muslim dissident movements in the Gulf states. See also CRS Report RL30728, *Persian Gulf: Issues for U.S. Policy, 2000.*

Saudi Arabia/Khobar Towers/Gulf States. Iran and Saudi Arabia restored relations in December 1991 (after a 4 year break), and progressively higher level contacts have taken place since December 1997. In May 1999, Khatemi became the first senior Iranian leader to visit Saudi Arabia since the Islamic revolution. In April 2000, Saudi Arabia's number three leader, Prince Sultan, hosted a visit by Iran's Defense Minister. Supreme Leader Khamene'i has been invited to visit the Kingdom as well. In mid-April 2001, Saudi Arabia and Iran formally entered into an anti-crime security pact, suggesting that Saudi Arabia wishes to bury the issue of the June 25, 1996 Khobar Towers housing complex bombing, which killed 19 U.S. airmen. On June 21, 2001, a federal grand jury indicted 14 suspects, 13 Saudis and a Lebanese citizen, for the Khobar bombing. The indictment suggested that official elements in Iran were likely involved, but no indictments of any Iranians were announced. Saudi officials announced that the 11 Saudi suspects who are in custody in Saudi Arabia would be tried in Saudi courts and not turned over to U.S. justice. In 2000, Iran entered into anti-crime security pacts with the other Gulf states of Kuwait and Oman. (See CRS Issue Brief IB93113, *Saudi Arabia: Postwar Issues and U.S. Relations*.)

Gulf Islands Dispute With UAE. Relations between Iran and the UAE deteriorated sharply in 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, which later became part of the UAE.) The UAE wants to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. Several GCC states — Saudi Arabia, Qatar, and Oman — have attempted to mediate and Iran-UAE talks did resume in July 2001, but there is no evidence of Iranian flexibility to date on the key issue of sovereignty. The United States, which is concerned about Iran's military improvements to the islands, generally supports UAE proposals but takes no position on sovereignty. *Jane's Defence Weekly* reported in March 2000 that Iran's military improvements were relatively minor.

Iraq. A legacy of the 8-year long Iran-Iraq war (1980-1988) is deep lingering suspicion between Iran and Iraq, but the two have drawn closer in recent years. Since early 1998, the two have exchanged significant numbers of prisoners from the 1980-1988 Iran-Iraq war. An October 2000 visit to Iraq by Iran's Foreign Minister Kamal Kharrazi resulted in apparent agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords, which Iraq had abrogated prior to its September 1980 invasion of Iran. In exchange for a share of the proceeds, Iran's maritime authorities generally cooperate with Iraq's illicit export of oil products through the Gulf, although Iran has occasionally prevented such shipments. Iranian hardliners still give support to Shiite militants in southern Iraq (the Supreme Council for the Islamic Revolution in Iraq, SCIRI) trying to overthrow Iraq's regime, and Iran allowed the Iraqi National Congress (INC), Iraq's main opposition umbrella, to open an office in Tehran in 2001.

Middle East Peace Process/North Africa

Many of the allegations of Iran's support for terrorism center on its assistance to groups opposed to the Arab-Israeli peace process, primarily Hamas, Palestinian Islamic Jihad (PIJ), Hizballah, and the Popular Front for the Liberation of Palestine-General Command.

Apparently corroborating press reports, U.S. terrorism reports state that, following the start of the September 2000 Palestinian uprising, Iran increased its support for terrorism somewhat by encouraging coordination among Palestinian terrorist groups. These groups have escalated attacks on Israel since the Palestinian uprising began in September 2000. Iran also incites anti-Israel violence, including hosting a conference of anti-peace process organizations on April 24, 2001: the conference served as a platform for Iranian statements against Israel that the United States called "outrageous and intolerable." Khamene'i told the meeting that Israelis had exaggerated the Holocaust to justify "crimes" against the Palestinians. Khamene'i said in early November 2000 that the Palestinian-Israeli violence could end only if Israel were "eradicated." Khatemi has sometimes tried to moderate Iran's position somewhat, saying during his November 2001 visit to the United Nations that Iran would accept a final Israeli-Palestinian settlement acceptable to the Palestinians. At the same time, Khatemi has sought to avoid conflict with hardliners by joining them in pledging continued support to anti-peace process groups.

On the other hand, Iran has traditionally had few ties to the non-Islamist Palestinian organizations, including elements linked to the Palestinian Authority, that have conducted some of the day-to-day violence against Israel in the current uprising. It was therefore viewed as a new development when Israel and the United States asserted in early January 2002 that Iran was the source of a shipment, intercepted by Israel, of 50 tons of arms bought by the Palestinian Authority.

About 150 Iranian Revolutionary Guards remain in Lebanon to coordinate Iranian arms deliveries to Hizballah, which are offloaded in Damascus and trucked into Lebanon. A *New York Times* report of January 12, 2002 said that, in the mid-1990s, Iran had transferred American-built Stinger anti-aircraft systems obtained in Afghanistan to Hizballah. Israel asserted in February 2002 that Iran had delivered 8,000 Katyusha rockets to Hizballah recently, but the Israeli claim could not be confirmed. On the other hand, in mid-April, Foreign Minister Kharrazi visited Lebanon and urged Hizbollah to exercise restraint on the Israeli-Lebanese border at a time of heightened tensions between Israel and the Palestinians. (Additional information on Hizballah's activities and connections to Iran can be found in CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*.)

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

Central and South Asia/Azerbaijan

Iran's policy in Central Asia has thus far emphasized economic cooperation over Islamic ideology, although Iran has become increasingly assertive in its relations with Azerbaijan. In early 1992, Iran led the drive to bring the Central Asian states and Azerbaijan into the Economic Cooperation Organization (founded in 1985 by Iran, Pakistan, and Turkey, as a successor to an organization founded by those states in 1964). Iran is hoping to attract energy pipeline routes through it, rather than through other countries. Iran has not tended to support radical Islamic fundamentalist groups in the Central Asian countries (with the possible exception of Tajikistan) or in Russia's Dagestan and Chechnya regions – most of which have been linked to Al Qaeda – but Iran does host at least one anti-Azerbaijan guerrilla leader (Hasan Javadov), and it reportedly allows anti-Uzbekistan activists access to Iran's state radio. Some allegations surfaced in April 2002 that Iran is actively helping the

Islamic Movement of Uzbekistan (IMU), an Al Qaeda ally, regroup after the war in Afghanistan.

Tensions with Azerbaijan flared in late July 2001 over energy exploration rights in the Caspian; Iranian warships and combat aircraft intimidated an international oil firm (BP) on contract to Azerbaijan from continuing its work an area of the Caspian Iran considers its own. The United States called Iran's actions in the Caspian provocative, and it offered new border security aid and increased political support to Azerbaijan. Iran and Armenia, adversary of Azerbaijan, agreed on expanded defense cooperation in early March 2002. Iran's Foreign Minister Kamal Kharrazi visited Moscow in April 2002, in part to discuss a legal regime for the sharing of Caspian Sea resources.

Afghanistan/Pakistan. Iran long opposed the puritanical Sunni Muslim regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed several Iranian diplomats based in northern Afghanistan. Subsequently, Iran 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 also includes Italy and Germany. Tacitly aligned with the U.S. military campaign against the Taliban in Afghanistan, Iran pledged search and rescue assistance to the United States and pledged to allow U.S. humanitarian aid for the Afghan people to transit Iran en route to Afghanistan. U.S. officials initially called Iran's role in the anti-Taliban/Al Qaeda effort, including efforts to form a new government at the Bonn conference (ended in agreement December 5, 2001) "constructive."

Some of Iran's activities in Afghanistan reflect official suspicion of the United States: Iran publicly opposed U.S. military retaliation for the September 11 attacks and refused to join a U.S.-led anti-terrorism coalition. Iran is said to fear the pro-U.S. tilt of the new government of Afghanistan and the waning of Iran's traditional sway in western, central, and northern Afghanistan where Persian-speaking Afghans predominate. There have been press reports and U.S. official statements since in January 2002 that Iran is harboring – or at least not aggressively moving to arrest – Al Qaeda fighters who have fled Afghanistan. Other reports say Iran is arming local Afghan strongmen including Herat governor Ismail Khan, Mazar-e-Sharif governor Abdul Rashid Dostam, and others, and President Bush has warned Iran not to seek to exert influence over the new government of Afghanistan. Apparently seeking to deflect the U.S. criticism, in March 2002 Iran reportedly expelled exiled Pashtun figure Gulbuddin Hikmatyar, an opponent of the new Afghan government. The expulsion followed a February 24, 2002 visit to Iran by Afghan interim leader Hamid Karzai in which the two countries agreed to cooperate broadly. (See CRS Report RL30588, *Afghanistan: Current Issues and U.S. Policy Concerns*.)

Former Yugoslavia

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

Human Rights Concerns

U.S. and U.N. human rights reports cite Iran for widespread human rights abuses, (especially of the Baha'i faith), including assassinations and executions of regime opponents (Kurds, People's Mojahedin, and others) in Iran and abroad. These reports note that Khatemi's efforts to promote rule of law have met repeated challenges from hardliners. In April, the U.N. Human Rights Commission narrowly voted not to investigate Iran's human rights record (in the form of reports by U.N. rapporteur Maurice Copithorne) for the coming year.

Religious Persecution. On October 27, 2001, the State Department again named Iran as a "Country of Particular Concern," under the International Religious Freedom Act. No sanctions were added, on the grounds that Iran is already subject to extensive U.S. sanctions. Religious persecution continues, especially against the Baha'i community, because Iran's Shiite Muslim clergy views the sect as heretical. Two Baha'is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). The United States condemned the execution. In February 2000, Iran's Supreme Court set aside the death sentences against three Bahais, Sirus Zabihi-Moqaddam, Hedayat Kashefi-Najafabadi, and Manucher Khulusi. On April 21, 1999, the Clinton Administration expressed concern about the sentencing to prison of four Baha'is. Recent resolutions condemning Iran's treatment of the Baha'is, including S.Con.Res. 57, which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000.

Trial of 13 Jews. Although the 30,000 member Jewish community (the largest in the Middle East aside from Israel) enjoys more freedoms than Jewish communities in several other Muslim states, during 1993-1998 Iran executed five Jews allegedly spying for Israel. In June 1999, Iran confirmed that it had arrested 13 Jews — teachers, shopkeepers, and butchers — from the Shiraz area that it said were part of an "espionage ring" for Israel. After an April - June 2000 trial in which eight of the suspects "confessed" to the allegations, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000) and received sentences ranging from 4 years to 13 years. Three Jews were acquitted. The affair provoked an international outcry, and the Clinton Administration worked through U.S. allies to intercede, possibly contributing to a September 21, 2000 decision by a three-judge appeals panel to reduce the sentences slightly, now ranging from 2 to 9 years. On February 8, 2001, Iran's Supreme Court rejected their appeals, allowing the revised sentences to stand. In March 2001, Iran released one of the Jews on the grounds that his sentence included time served. A second was released on January 16, 2002. Several bills in the 106th Congress condemned the arrests and called for the release of the detainees and for linking U.S. relations with Iran to the trial's outcome; the Senate passed S.Con.Res. 39 (June 23, 1999) and S.Con.Res. 109 (May 4, 2000). In April 2001, a similar bill, H.Con.Res. 29, was introduced in the 107th Congress.

U.S. Policy and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations, but the rift appears to be starting to close somewhat. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States

broke relations with Iran on April 7, 1980, and the two countries have had no official dialogue since. The exception was the abortive 1985-86 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hizballah in Lebanon (the so-called "Iran-Contra Affair"). Iran maintains an interests section in Washington through the Embassy of Pakistan, staffed by Iranian permanent resident aliens or U.S. citizens of Iranian descent. The U.S. protecting power in Iran is Switzerland.

Upon taking office in 1993, the Clinton Administration moved to further isolate Iran as part of a strategy of "dual containment" of Iran and Iraq. In 1995 and 1996, the Clinton Administration and Congress added sanctions on Iran in response to growing concerns about Iran's weapons of mass destruction and conventional weapons acquisition programs, its support for terrorist groups, and its efforts to subvert the Arab-Israeli peace process. The election of Khatemi in May 1997 precipitated a shift in U.S. policy from containment to engagement, although with key efforts to limit Iran's strategic capabilities still in place. The Clinton Administration sought to engage Iran in a dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to increase "people-to-people" exchanges with the United States but ruled out an official dialogue.

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

Until early 2002, the Bush Administration appeared to be continuing the Clinton Administration efforts, in part by building on the cooperation between the two countries in Afghanistan. The Administration's November 13, 2001 continuation of the 1979 national emergency on Iran justified the emergency by saying that U.S. "relations with Iran have not yet returned to normal," a far softer statement than previous justifications sighting a continued threat from Iran. However, Iran continued to refuse to engage in official, bilateral talks until at least some U.S. sanctions are lifted. In May 2002, U.S. officials said they "could not confirm" assertions by an Iranian parliamentarian that secret U.S.-Iran talks had taken place, saying the United States and Iran do talk in several multilateral fora, such as those on Afghanistan. Following a move by some Majlis deputies to call for re-establishing relations with the United States, Supreme Leader Khamene'i moved forcefully to squash talk of improved relations on October 30, 2001, when he threatened to fire Iranian officials who strive for that result. His statement came a few weeks after several Members of Congress had dinner in the Senate with Iran's U.N. representative.

The gradual thaw in relations, which appeared to accelerate in the context of the Afghanistan crisis, appears to have stalled or reversed as of January 2002. Allegations of Iran's sale of arms to the Palestinian Authority and reputed meddling in Afghanistan have caused the Administration and Congress to become far more critical of Iran's intentions and actions. As noted above, President Bush named Iran as part of an "axis of evil" in his State of the Union message. In subsequent comments, the President and his aides said that the United States would still be willing to hold dialogue with Iran and that the President was

implying he wants Iran's behavior to change, not threatening military action against Iran, such as airstrikes on Iranian WMD or arms facilities. Despite the tensions, in March and April 2002 Foreign Relations Committee Chairman Joseph Biden and the Chairman of the Middle East Subcommittee of the House International Relations Committee, Benjamin Gilman, called for U.S. efforts to promote civil society in Iran, in part to strengthen reformists' efforts.

Economic Sanctions

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

Terrorism/Foreign Aid. Following the October 1983 bombing of the U.S. Marine barracks in Lebanon, believed perpetrated by Iranian allies, Iran was added to the "terrorism list" in January 1984. The designation bans direct U.S. financial assistance and arms sales, restricts sales of U.S. dual use items, and requires the United States to oppose multilateral lending to the designated countries. Separate from its position on the terrorism list, successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) and indirect assistance (U.S. contributions to international organizations that work in Iran). Section 307 of the Foreign Assistance Act of 1961 (added in 1985) names Iran as unable to benefit from U.S. contributions to international organizations, requiring proportionate cuts if these institutions work in Iran. Iran is also barred from sales of U.S. munitions list items because it 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 also penalizes countries that assist or sell arms to terrorism list countries.

Proliferation Sanctions. Some of these sanctions are discussed above, and two 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. It also imposes sanctions on foreign countries that transfer "destabilizing numbers and types of conventional weapons," as well as WMD technology, to Iran. The Iran Nonproliferation Act (P.L. 106-178) authorizes sanctions on foreign entities that assist Iran's WMD programs. It also bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under the Agency's control had not transferred any WMD or missile-related technology to Iran within the year prior. The provision contains certain exceptions to ensure the safety of astronauts who will use the space station and for certain space station hardware.

Counternarcotics. In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. The decision exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. Britain reportedly has sold Iran small arms for its anti-drug efforts on the Afghan border.

Trade Ban. On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran, including the trading of Iranian oil overseas by U.S. companies. This followed an earlier March 1995 executive order barring U.S.

investment in Iran's energy sector, and, although modified, has been extended each year since. On March 13, 2001, President Bush renewed the declaration of a state of emergency that triggered the March 1995 investment ban. An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran. The 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. 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 747's (Boeing). Implementing regulations do not permit U.S. firms to negotiate investment deals with Iran, and, in November 2000, the Office of Foreign Assets Control (OFAC, Department of Treasury) warned U.S. firms against co-sponsoring energy-related conferences 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 were made available and U.S. exporters were 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), contains 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. (In the 107th Congress, S.171, introduced January 24, 2001, would repeal this provision.) The Clinton Administration did not provide credit guarantees, and the Bush Administration has not done so either.

In her March 17, 2000 speech, then Secretary Albright announced an easing of the trade ban to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar; regulations governing the sales were issued in April 2000. The United States was the largest market for Iranian carpets before the 1979 revolution, although U.S. anti-dumping tariffs imposed on Iranian pistachio nut imports in 1986 (about 300%) and still in effect are dampening imports of that product. Iranian caviar began arriving in the United States in May 2000, and Iranian carpets are being sold in the United States, estimated to be a $100 million per year market.

The Iran-Libya Sanctions Act (ILSA). The Iran-Libya Sanctions Act (ILSA, H.R. 3107, P.L. 104-172, signed August 5, 1996), a law that sanctions foreign investment in Iran or Libya's energy sector, was to expire on August 5, 2001. H.R. 1954, which renewed ILSA for five years but requires an Administration report on its effectiveness within 24-30 months, was passed by large majorities in both chambers in July 2001. It was signed on August 3, 2001 (P.L. 107-24). See CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA).*

Caspian/Central Asian Energy Routes Through Iran. The U.S. trade ban permits U.S. companies to apply for licenses to conduct "swaps" of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999. The Administration continues to oppose, and to threaten imposing ILSA sanctions on, pipeline projects that route Caspian/Central Asian energy through Iran. U.S. policy has been to strongly favor construction of a pipeline that would cross the Caspian Sea and let out in Ceyhan, Turkey (Baku-Ceyhan pipeline), avoiding Iran or Russia. Four Caspian nations (Turkey, Georgia,

Azerbaijan, and Kazakhstan) signed an agreement embracing Baku-Ceyhan on November 18, 1999, and regional and corporate support for the project has gained momentum; a detailed engineering study is under way. In a potential setback to it, in mid-2001 Kazakhstan began pushing for construction of an oil pipeline across Iran. In December 2001, Kazakhstan's President Nazarbayev urged Secretary of State Powell to reconsider U.S. policy and allow routes through Iran; Powell did not reject the request outright. U.S. official statements in March 2002 reiterated that U.S. policy is to favor energy projects that do not transit Iran. Despite U.S. pressure not to import Iranian gas, Turkey has begun to do so through a new cross-border pipeline, under an August 1996 bilateral agreement. (See CRS Report 98-86, *Iran: Relations With Key Central Asian States*.)

European and Japanese Relations With/Lending to Iran. U.S.-allied differences on Iran narrowed since 1998 in concert with the Clinton Administration's attempt to engage Iran, a policy consistently favored by the European countries as a way to moderate Iran's behavior. During 1992-1997, the European Union (EU) countries maintained a policy of "critical dialogue" with Iran. The United States did not oppose those talks with Iran but maintained that the EU's dialogue would not change Iranian behavior. The dialogue was suspended immediately following the April 1997 German terrorism trial that found high-level Iranian involvement in assassinating Iranian dissidents in Germany. Simultaneous with the Khatemi era U.S. shift toward engagement, the EU-Iran dialogue formally resumed in May 1998. Since then, Khatemi has undertaken state visits to several Western countries, including Italy (March 1999), France (October 1999), Germany (July 2000), and Japan (November 2000). The United States publicly welcomed these visits.

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

In August 1999, Japan's Foreign Minister continued a gradual improvement in relations with Iran by visiting that country and announcing that Japan would resume its official development lending program for Iran to construct a hydroelectric dam over the Karun River. However, the $70 million increment announced was less that 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 (two years or longer) 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 Japan's commitment to provide insurance cover for over $500 million in private sector projects, including refurbishment of steel and petrochemical plants. Iran also granted Japanese firms the first right to negotiate to develop the large Azadegan field, and Iran and a Japanese-led consortium are moving forward with preliminary studies

of the field. Some press reports suggest that Royal Dutch/Shell might join the Azadegan project, apparently because it can provide needed technology. In exchange, Japan agreed to prepay Iran $1 billion per year for the next 3 years for Iranian oil. Partly at U.S. urging, Japan refused to extend to Iran additional official loans.

During 1994-1995, and over U.S. objections at the time, Iran's European and Japanese creditors rescheduled about $16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling and International Monetary Fund (IMF) involvement. Iran has worked its external debt down from $32 billion in 1997 to about $20 billion as of March 2002, according to Iran's Central Bank. The improved debt picture has led most European export credit agencies, including Germany's Hermes, France's COFACE, and that of Spain, to restore insurance cover for exports to Iran. In early September 2001, Iran and the EU met to discuss a possible trade pact that would lower the tariffs or increase quotas for Iranian exports to the EU countries. In August 2001, Iran announced it would tap international capital markets for the first time since the Islamic revolution by issuing a $280 million Eurobond.

Multilateral Lending to Iran. Section 1621 of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132) amended the Foreign Assistance Act to require the United States to vote against international loans to countries on the U.S. terrorism list. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of $460 million for electricity, health, and irrigation projects. To signal opposition to international lending to Iran, the FY1994 foreign aid appropriations act (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, the FY1995 foreign aid appropriation (P.L. 103-326), and the FY1996 foreign aid appropriations (P.L. 104-107), would have significantly reduced U.S. payments to the Bank if it had provided new loans to Iran. The legislation contributed to the Bank's refusal to approve any new lending to since then. By 1999, Iran's moderating image had led the World Bank to consider new loans.

In May 2000, the United States was unsuccessful in obtaining further delay on a vote on new lending for Iran, and its allies outvoted the United States to approve $232 million in loans for health and sewage projects. Twenty one of the Bank's twenty four governors voted in favor, and France and Canada abstained. Earlier, Iran also had asked the International Monetary Fund for about $400 million in loans (its quota is about $2 billion) to help it deal with its trade financing shortfalls. However, Iran balked at accepting IMF conditionality, and discussions broke off. 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. Voting on the loans is expected later in 2002.

WTO. On May 8, 2001, the World Trade Organization, at U.S. urging, postponed until July 2001 a discussion on whether to launch entry talks with Iran. On July 18, 2001, and again on October 10, 2001, the United States achieved further postponements in considering Iran's application for admission, although the Administration says that position is "under review." Iranian officials indicate to U.S. visitors that the dropping of U.S. opposition to Iran's membership in the WTO would be taken as a positive U.S. gesture.

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

Albright implied in her March 17, 2000 speech that this practice would be eliminated. 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).

Assets Disputes/Victims of Terrorism. Iran claims that the United States has frozen vast amounts of Iranian assets, presenting an obstacle to improved relations. A U.S.-Iran Claims Tribunal, at the Hague, is arbitrating cases resulting from the break in relations following the Iranian revolution. The major cases yet to be decided center on hundreds of Foreign Military Sales cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About $400 million in proceeds from the resale of that equipment is in a DOD account. In April 2000, then Secretary Albright named a representative to negotiate a resolution of the claims issue at the Hague.

The assets issue moved to the forefront following several U.S. court judgements against Iran for past acts of terrorism against Americans, filed under the Anti-Terrorism and Effective Death Penalty Act of 1996. Since March 1998, U.S. courts have awarded the following: $247 million to the family of Alisa Flatow, killed in Israel in April 1995 in a bombing by Palestinian Islamic Jihad (awarded in March 1998); $65 million to three Americans held hostage in Lebanon - David Jacobsen, Joseph Cicippio, and Frank Reed (August 1998); $324 for Lebanon hostage Terry Anderson (March 2000); $327 million to the families of two Americans killed in a February 1996 Hamas bombing (July 2000); and $355 million to the family of Marine Lt. Col. William Higgins, killed by Hizballah in 1989 (September 2000). Former Lebanon hostage Thomas Sutherland won a $353 million judgement against Iran on June 26, 2001.

In August 2001, the family of former Lebanon hostage father Lawrence Jenco won a $314.6 million judgment against Iran for his captivity. In June 2001, former hostages Benjamin Weir and Frank Regier sued Iran for over $100 million for their captivity in Lebanon. Also in early June 2001, the family of former hostage Peter Kilburn, who was killed in the course of his captivity in Lebanon, filed a suit against both Libya and Iran for more than $200 million. In October 2001, victims of the October 1982 Hizbollah bombing of the Marine barracks in Beirut filed a $5 billion suit against Iran. On January 23, 2002, a federal judge ordered Iran to pay $42 million to the family of Charles Hegna, who was beaten in the course of a 1984 Hizbollah hijacking of Kuwait Air 221. On February 6, 2002, a federal judge awarded $56 million to the family of Ira Weinstein, killed in a 1996 Hamas bus bombing in Israel.

On the basis of the sanctity of diplomatic property, the Clinton Administration blocked efforts by the claimants to satisfy their judgments from frozen Iranian assets – diplomatic property in Washington (worth about $22 million) or the DOD account mentioned above. In December 1999, the Clinton Administration also blocked a Flatow effort to seize a $6 million U.S.-Iran Claims Tribunal judgement awarded to Iran. A provision of the Victims of Trafficking and Violence Protection Act of 2000 (H.R. 3244, P.L. 106-386) provides for the use of general revenues to pay 110% of *compensatory* damage awards to the above and future successful claimants in a total not to exceed the rental proceeds from Iran's diplomatic property and the DOD account. (The tenant of the Iranian Embassy building was evicted for non-payment of rent in March 2002, with rent of about $750,000 overdue.) The provision requires the President to try to recoup the expended funds from Iran as part of an overall reconciliation in relations and assets settlement, although there is no requirement that funds ultimately be withheld from Iran. A provision of the FY2002 Commerce, Justice, State appropriation (P.L. 107-77) requires an Administration legislative proposal on how to

compensate successful U.S. claimants in future terrorism-related judgments against Iran. In April 2002, a federal judge ruled that Iran, under the Algiers Accords, had immunity from a lawsuit by the 52 Americans held hostage by Iran for 444 days. With regard to the 52 American hostages, the conference report on the FY2002 defense appropriation (P.L. 107-117, H.Rept.107-350) states that the hostages should be able to collect damages from Iranian assets, notwithstanding U.S.-Iran agreements on the disposition of Iran's assets.

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 in the shootdown. The funds for this settlement came from a general appropriation for judgments against the United States. The United States previously paid $3 million in death benefits for 47 non-Iranians killed in the attack, but has not compensated Iran for the airplane itself. A different case, pending before the ICJ, involves an Iranian claim for damages to Iranian oil platforms during U.S. naval clashes with Iran in October 1987 and April 1988.

Military Containment

U.S. policy has focused on containing the military threat posed by Iran to the United States, U.S. allies in the Persian Gulf, and international shipping. Although containing Iraq has been the primary goal of U.S. forces in the Persian Gulf region since the Iraqi invasion of Kuwait, U.S. military officials note that U.S. forces can also be used to monitor and deter Iran, if necessary. U.S. military officers note that their encounters with Iranian naval vessels in the Gulf have been more professional and less tense since Khatemi took office.

Iran's Opposition Movements

On February 8, 1995, then House Speaker Newt Gingrich said that a U.S. policy supporting the overthrow of Iran's regime was the only policy that made sense. The Administration accepted a House-Senate conference agreement to include $18-$20 million in funding authority for covert operations against Iran in the FY1996 intelligence authorization act (H.R. 1655, P.L. 104-93) — about $14 million more than requested — according to a *Washington Post* report of December 22, 1995. The Clinton Administration reportedly succeeded in focusing the covert aid on changing the regime's behavior, rather than its overthrow. The conference report on H.R. 2267 (H.Rept. 105-405), the FY1998 Commerce/State/ Justice appropriation, provided $4 million for a "Radio Free Iran," to be run by Radio Free Europe/Radio Liberty (RFE/RL). The radio, which the Administration is calling the Farsi service of RFE/RL, began operations in Prague on October 31, 1998. Another $4 million for the radio for FY1999 was provided by the omnibus appropriation (H.R. 4328, P.L. 105-277). (See CRS Report 98-539, *Radio Free Iraq and Radio Free Iran: Background, Legislation, and Policy Issues for Congress*.)

Since the late 1980s, the State Department has refused contact with the anti-regime People's Mojahedin Organization of Iran (PMOI) and its umbrella organization, the National Council of Resistance (NCR). It was designated as a foreign terrorist organization in October 1997 under the Anti-Terrorism and Effective Death Penalty Act of 1996. For further information on the PMOI, see CRS Report RL31119, *Terrorism: Near Eastern Groups and State Sponsors, 2002*.

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