Order Code RL32048

CRS Report for Congress

Iran: U.S. Concerns and Policy Responses

Updated May 28, 2008

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Prepared for Members and
Committees of Congress

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Summary

The Bush Administration characterizes Iran as a "profound threat to U.S. national security interests." The Administration perception is generated primarily by Iran's nuclear program but is increasingly focused on Iran's military assistance to armed groups in Iraq, which is resulting in U.S. battlefield losses. Iranian aid to the Palestinian group Hamas and Lebanese Hezbollah is also considered a key threat to U.S. interests. The threat assessment of some other governments was lessened by the December 3, 2007 key judgements of a National Intelligence Estimate (NIE) that indicates that Iran is likely not on a drive to develop an actual nuclear weapon, although Administration officials say that this finding was not the main thrust of the NIE, which judged Iran to be continuing uranium enrichment.

The Bush Administration argues that the NIE at least partly validates its approaches to containing the potential threat posed by Iran — strengthening international economic and political isolation of Iran to compel it to comply with international demands that it end its enrichment of uranium. Three U.N. resolutions (1737, 1747, and 1803) ban weapons of mass destruction (WMD)-related trade with Iran, freeze the assets of Iran's nuclear and related entities and personalities, prevent Iran from transferring arms outside Iran, ban or require reporting on international travel by named Iranians, call for inspections of some Iranian sea and airborne cargo shipments, and call for restrictions on dealings with some Iranian banks. Separate U.S. efforts, showing some success, have included trying to persuade European governments to curb trade, investment, and credits to Iran; and pressuring foreign banks not to do business with Iran. At the same time, there is increasing recognition in the Administration that sanctions alone have not compelled Iran to suspend uranium enrichment. The Administration and its partners are presenting an enhanced package of incentives that might encourage Iran to cooperate, although the Administration is said to remain skeptical that Iran would respond positively to inducements.

To strengthen its diplomacy, the Administration has maintained a substantial naval presence in the Persian Gulf. The Administration has strongly denied widespread speculation that it plans military action against Iran, but has refused to rule it out if no other efforts to curb Iran's uranium enrichment program succeed. Some believe that the Administration might take military action to curb Iran's "malign" influence in Iraq. Others believe that only a change of Iran's regime would end the threat posed by Iran, although regime change is not currently a prominent feature of Administration policy toward Iran.

For further information, see CRS Report RS20871, *The Iran Sanctions Act (ISA)*, and CRS Report RS22323, *Iran's Activities and Influence in Iraq*, both by Kenneth Katzman, and CRS Report RS21592, *Iran's Nuclear Program: Recent Developments*. This report is updated regularly.

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Much of the debate over U.S. policy toward Iran has centered on the nature of the current regime; some believe that Iran, a country of almost 70 million people, is a threat to U.S. interests because hardliners in Iran's regime dominate and set a policy direction intended to challenge U.S. influence and allies in the region. President Bush, in his January 29, 2002, State of the Union message, labeled Iran part of an "axis of evil" along with Iraq and North Korea.

Political History

The United States was an ally of the late Shah of Iran, Mohammad Reza Pahlavi ("the Shah"), who ruled from 1941 until his ouster in February 1979. The Shah assumed the throne when Britain and Russia forced his father, Reza Shah Pahlavi (Reza Shah), from power because of his perceived alignment with Germany in World War II. Reza Shah had assumed power in 1921 when, as an officer in Iran's only military force, the Cossack Brigade (reflecting Russian influence in Iran in the early 20th century), he launched a coup against the government of the Qajar Dynasty. Reza Shah was proclaimed Shah in 1925, founding the Pahlavi dynasty. The Qajars had been in decline for many years before Reza Shah's takeover. That dynasty's perceived manipulation by Britain and Russia had been one of the causes of the 1906 constitutionalist movement, which forced the Qajars to form Iran's first Majles (parliament) in August 1906 and promulgate a constitution (December 1906). Prior to the Qajars, what is now Iran was the center of several Persian empires and dynasties. Iran adopted Shiite Islam under the Safavid Dynasty (1500-1722), which brought Iran out from a series of Turkic and Mongol conquests.

The Shah was anti-Communist, and the United States viewed his government as a bulwark against the expansion of Soviet influence in the Persian Gulf. In 1951, under pressure from nationalists in the Majles (parliament) who gained strength in the 1949 Majles elections, he appointed a popular nationalist parliamentarian, Dr. Mohammad Mossadeq, as Prime Minister. Mossadeq was widely considered left-leaning, and the United States was wary of his policies, which included his drive for nationalization of the oil industry. Mossadeq's followers began an uprising in August 1953 when the Shah tried to dismiss Mossadeq, and the Shah fled. The Shah was restored in a successful CIA-supported uprising against Mossadeq.

The Shah tried to modernize Iran and orient it toward the West, but in so doing he also tried to limit the influence 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 his patron, the United States. Khomeini

fled to and taught in Najaf, Iraq, a major Shiite theological center that contains the Shrine of Imam Ali, Shiism's foremost figure. There, he was a peer of senior Iraqi Shiite clerics and, with them, advocated direct clerical rule or *velayat-e-faqih* (rule by a supreme Islamic jurisprudent). In 1978, three years after the March 6, 1975, Algiers Accords between the Shah and Iraq's Baathist leaders, which settled territorial disputes and required each party to stop assisting each other's oppositionists, Iraq expelled Khomeini to France, 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, as enshrined in the constitution that was adopted in a public referendum in December 1979 (and amended in 1989). Khomeini was strongly anti-West and particularly anti-U.S., and relations between the United States and the Islamic Republic turned hostile even before the November 4, 1979, seizure of the U.S. Embassy by pro-Khomeini radicals.

Regime Stability, Human Rights, and Recent Elections

About a decade after founding the Islamic republic, Ayatollah Ruhollah Khomeini died on June 3, 1989. The regime he established appears relatively stable, despite internal schisms, occasional unrest in areas inhabited by minorities, and substantial unpopularity among intellectuals, students, educated elites, and many women. Upon his death, one of his disciples, Ayatollah Ali Khamene'i, a two term president (1981-1989), was selected Supreme Leader by an "Assembly of Experts" (an elected body).[1] The fourth election for the Assembly of Experts, which is empowered to oversee the work of the Supreme Leader and replace him if necessary, as well as to amend the constitution, was held on December 15, 2006. After that election, Akbar Hashemi-Rafsanjani, still a major figure having served two terms as president himself (1989-1997), was elected deputy chief of the Assembly of Experts, positioning him for elevation to leader following the August 2007 death of the existing chief, Ayatollah Ali Meshkini. Rafsanjani was voted head of the Assembly of Experts on September 4, 2007, defeating the harder line Ayatollah Ahmad Jannati.

Khamene'i has vast formal powers as Supreme Leader — he is Commander in Chief of the armed forces, appoint commanders, and has a representative on the highest national security body, the Supreme National Security Council, composed of top military and civilian security officials. The Supreme Leader appoints half of the twelve-member Council of Guardians;[2] and the members of Iran's Supreme Judicial Council, but he does not appoint the cabinet, which is named by the President and confirmed by the Majles (parliament). Headed by Jannati, the conservative-controlled Council of Guardians reviews legislation to ensure it conforms to Islamic

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[1] The Assembly also has the power to amend Iran's constitution.

[2] The Council of Guardians consists of six Islamic jurists and six secular lawyers. The six Islamic jurists are appointed by the Supreme Leader. The six lawyers on the Council are selected by the judiciary but confirmed by the Majles (parliament).

law, and it screens election candidates. Khamene'i also has the power, under the constitution, to remove the elected President if either the Supreme Judicial Council or the elected Majles (parliament) say the President should be removed, with cause. The Supreme Leader also appoints members of the 42-member Expediency Council, set up in 1988 to resolve legislative disagreements between the *Majles* (parliament) and the Council of Guardians. Expediency Council members serve five-year terms. The Council, appointed most recently in February 2007, is still headed by Rafsanjani; its executive officer is former Revolutionary Guard commander-in-chief Mohsen Reza'i.

Table 1. Major Factions and Personalities

Conservatives	
Supreme Leader Ali Khamene'i	Has all the formal powers but none of the undisputed authority of his predecessor, founder of the revolution Ayatollah Ruhollah Khomeini. Widely considered moderate-conservative despite frequent hardline rhetoric - seeks to challenge U.S. hegemony while avoiding isolating Iran or provoking military confrontation. Generally supportive of the business community (bazaaris), and opposes major state intervention in the economy.
Akbar Hashemi-Rafsanjani	Key strategist of the regime, longtime advocate of "grand bargain" to resolve all outstanding issues with United States, although on Iran's terms. Leads both Expediency Council and Assembly of Experts. Leads moderate-conservative faction known as Executives of Construction. Was Majles (parliament) speaker during 1981-89 and President 1989-1997. One of Iran's richest men, family owns large share of Iran's total pistachio nut production.
President Mahmoud Ahmadinejad	Leads faction of younger, harder line conservatives associated with Revolutionary Guard, revolutionary institutions, and provincial governments, who comprise much of his cabinet. Generally supports state control of the economy, subsidies, and social welfare programs for lower classes. Particularly popular in rural areas.
Majles Speaker Ali Larijani	Overwhelming winner for Majles seat from Qom on March 14, 2008 and overwhelmingly (160-50) selected Majles Speaker on May 25. Former state broadcasting head, was head of Supreme National Security Council and chief nuclear negotiator until October 2007 resignation. Sought to avoid U.N. Security Council isolation. Politically close to Khamene'i, he still serves on the Supreme National Security Council.
Mohammad Baqer Qalibaf	Former Revolutionary Guard Air Force commander and police chief, but a moderate-conservative and likely challenger to Ahmadinejad in 2009 presidential election. Supporters won nine out of 15 seats on Tehran city council in December 2006 elections, defeating Ahmadinejad supporters, propelling him to mayor of Tehran. With Larijani and former Revolutionary Guard Commander-in-Chief Mohsen Reza'i, recruited moderate conservatives for March 14 Majles election.

Ayatollah Mohammad Taqi Mesbah-Yazdi	Founder of the hardline Haqqani school, and spiritual mentor of Ahmadinejad. Fared poorly in December 2006 elections for 86-seat "Assembly of Experts" that can amend the constitution, oversee Khamene'i's performance, and determine his successor, but did win a seat. An assertive defender of the powers of the Supreme Leader and a proponent of an "Islamic state" rather than the current "Islamic republic," and advocates isolation from the West. Some believe Mesbah-Yazdi harbors ambition to replace Khamene'i.
Mahmud Hashemi Shahrudi	An Ayatollah, has headed the Supreme Judicial Council since 1999. Ally of Khamene'i and Rafsanjani, has supported repeated crackdowns on independent media critical of the regime. But, has cracked down on judicial corruption and on mistreatment of prisoners. Politically close to Shiite Islamist parties in Iraq, he is hosting Moqtada Al Sadr, the radical young Iraqi cleric, who has been studying Islamic theology in Qom since late 2007.
Militant Clerics Association	Longtime organization of hardline clerics headed by Ayatollah Mohammad Mahdavi-Kani. Not to be confused with an organization with almost the same name, below.
Reformists	
Mohammad Khatemi/ Reformists	Reformist president during 1997-2005. Elected May 1997, with 69% of the vote; re-elected June 2001with 77%. Rode wave of sentiment for easing social and political restrictions among students, intellectuals, youths, and women that seeks reform but not outright replacement of the Islamic republican regime. Khatemi supporters held about 70% of the 290 seats in the 2000-2004 Majles. Now heads International Center for Dialogue Among Civilizations and remains a public figure in Iran. Visited U.S. in September 2006 to speak at Harvard and the Washington National Cathedral on "dialogue of civilizations." Reformist Mostafa Moin finished fifth in the first round of presidential elections on June 17, 2005. Reformists regrouped and won four of fifteen Tehran city council seats in December 2006 local elections.
Society of Militant Clerics	Reformist grouping once led by Mehdi Karrubi. Karrubi formed a separated "National Trust" grouping after his 2005 loss in the presidential election.
Office of Consolidation Unity (Daftar Tahkim-e-Vahdat)	Hardline reformists. Originally strong Khatemi supporters, but turned against him for failing to challenge hardliners, particularly after July 1999 violent crackdown on student riots, in which four students were killed. Generally dispersed and repressed under conservative presidency of Ahmadinejad.
The Islamic Iran Participation Front (IIPF).	The most prominent and best organized pro-reform grouping. Its leaders include Khatemi's brother, Mohammad Reza Khatemi (a deputy speaker in the 2000-2004 Majles) and Mohsen Mirdamadi.
Mojahedin of the Islamic Revolution Organization (MIR)	Composed mainly of left-leaning Iranian figures who support state control of the economy, but want greater political pluralism and relaxation of rules on social behavior. Its leader is former Heavy Industries Minister Behzad Nabavi.

The Rebound of the Conservatives and the 2005 Election of Mahmoud Ahmadinejad. After suffering several election defeats at the hands of Mohammad Khatemi and the reformists during 1997-2000 — and losing the grip on power they held while Khomeini was alive — the conservative camp gained strength after the February 28, 2003, municipal elections, when reformists largely boycotted. The conservatives gained additional strength from the February 20, 2004, Majles elections, in which the Council of Guardians disqualified about 3,600 mostly reformist candidates, including 87 members of the incumbent Majles, enabling the conservatives to win about 155 out of the 290 seats on turnout of about 51%. The Administration and the Senate (S.Res. 304, adopted by unanimous consent on February 12, 2004) criticized the elections as unfair because of the screening.

As the reformist faction suffered setbacks, Rafsanjani regained prominence and ran in the June 2005 presidential elections. (He was constitutionally permitted to run because a third term would not have been consecutive with his previous two terms.) After the Council of Guardians narrowed the field of candidates to 8 out of the 1,014 persons who filed,[3] Rafsanjani had several opponents more hardline than he is — three had ties to the Revolutionary Guard: Ali Larijani (see **Table 1**); Mohammad Baqer Qalibaf (see **Table 1**); and Tehran mayor Mahmoud Ahmadinejad. In the June 17, 2005 first round, turnout was about 63% (29.4 million votes out of 46.7 million eligible voters). With 21% and 19.5%, respectively, Rafsanjani and Ahmadinejad moved to a run-off. Ahmadinejad won a landslide victory in the June 24 runoff, receiving 61.8% to Rafsanjani's 35.7%. Turnout was 47%, less than the first round. He took office on August 6, 2005.

Ahmadinejad's Policies and Political Position. Since taking office, Ahmadinejad has inflamed world opinion with several anti-Israel statements, the first of which was stated at an October 26, 2005, Tehran conference entitled "A World Without Zionism" that "Israel should be wiped off the map" and that "anybody who recognizes Israel will burn in the fire of the Islamic nations' fury." A similar point of contention was his insistence on the holding of a December 2006 conference in Tehran questioning the Holocaust, a theme he has returned to several times since, including at a September 2007 speech at Columbia University, a forum where he also denied that Iran had any homosexuals. A U.N. Security Council statement and Senate and House resolutions (H.Res. 523 and S.Res. 292), passed in their respective chambers, condemned the statement. On June 21, 2007, the House passed H.Con.Res. 21, calling on the United Nations Security Council to charge Ahmadinejad with violating the 1948 Convention on the Prevention and Punishment of the Crime of Genocide; the Convention includes "direct and public incitement" to commit genocide as a punishable offense. More recently, on April 17, 2008, Ahmadinejad said the September 11 attacks were a "pretext" for the United States to invade Afghanistan and Iraq.

Some Iranian leaders, both conservative and reformist, and portions of the population, have been concerned that Ahmadinejad's defiance of the international community on the nuclear issue were isolating Iran. Several experts believe that

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[3] In the 2001 presidential election, the Council permitted 10 out of the 814 registered candidates.

Supreme Leader Khamene'i wants to curb Ahmadinejad's authority in order to limit confrontation with the international community. The first decision that strengthened this view was the October 2005 grant of new governmental supervisory powers to the Expediency Council. Another was the July 2006 creation of a ten-person advisory "Foreign Policy Committee" consisting of former defense and foreign ministers. In January 2007, an Iranian newspaper owned by Khamene'i admonished Ahmadinejad to remove himself from the nuclear issue. A shakeup in the nuclear negotiating team in October 2007 represented a further indication of splits in the leadership on that issue, especially because the former negotiator, Ali Larijani, continues to undertake official visits representing the Supreme Leader, such as a visit to Egypt in January 2008. In April 2008, Ahmadinejad fired two cabinet ministers, including the Interior Minister Mustafa Pour-Mohammadi who is close to Khamene'i. However, Ahmadinejad's ties to the Revolutionary Guard and other revolutionary institutions, as well as his ties to the emerging new generation of senior leaders, likely positions him to weather criticism from more senior leaders.

March 2008 Majles Elections. The December 15, 2006, municipal council and Assembly of Experts elections led experts to believe that pro-Ahmadinejad candidates would be on the defensive in the March 14, 2008 Majles elections. In the municipal elections, his supporters won only 3 out of the 15 seats on the Tehran city council, with similar results in other major cities. Ahmadinejad's political standing appeared further undermined by the June 2007 rationing of gasoline — a move intended to curb consumption that forces Iran to import refined gasoline. The rationing harmed poorer Iranians in the urban areas who sometimes use their cars as unofficial taxis, although it did reduce dependence on imported gasoline, according to industry experts. Some protests took place, including attacks on gas stations, although the unrest eased when the government offered to hand out six months worth of gas rations in advance. In addition, some Iranians received a windfall by selling excess ration coupons to other Iranians. The Oil Minister resigned in August 2007, probably because of the unpopularity of the program among some. In January 2008, the Supreme Leader ordered Ahmadinejad to implement Majles legislation requiring the government to give natural gas to remote villages hard hit by cold weather.

Maneuvering increased in advance of the Majles elections and presidential elections in March 2009, in which Ahmadinejad is expected to run for a second term. About 7,600 persons filed to run for the 290 total seats, of which 30 are in Tehran. Of these, about 2,000 mostly reformist candidates, including 103 Majles incumbents, were disqualified by the Council of Guardians. The outcome is in the table below, and the selection of Ali Larijani, leader of the "moderate-conservative" faction, as Majles Speaker, suggests that Ahmadinejad will face a relatively critical Majles as the March 2009 presidential election in Iran approaches.

Table 2. Factions in the Eighth Majles (Elected March 14 - April 25, 2008)

Pro-Ahmadinejad Conservatives (United Front of Principalists)	117
Anti-Ahmadinejad Conservatives (Coalition of Principalists)	53
Reformists (39 seats in eighth Majles)	46
Independents	71
Seats annulled or voided	3

Ahmadinejad has tried to solidify his position with the lower classes and rural votes by raising some wages and lowering interest rates for poorer borrowers, cancelling some debts of farmers, and increasing social welfare payments and subsidies. Some analysts believe these moves have backfired, to some extent, by causing increased inflation, but rural Iranians see him as attentive to their economic plight. The Supreme Leader is said by press reports to be increasingly critical, in private, of Ahmadinejad's economic performance, particularly the increasing inflation. Ahmadinejad apparently believes that his distributive policies can still be supported by high oil prices. The relative health of Iran's budget is helping Iran minimize the effects of international sanctions resulting from Iran's nuclear defiance, although some business owners say the difficulty obtaining credit from foreign banks is hurting their ability to operate. Still, Ahmadinejad has not moved to correct economic structural imbalances, such as the dependence on oil revenues, which account for about 20% of Iran's gross domestic product (GDP), and its extensive imports of refined gasoline. Major economic sectors or markets are controlled by the quasi-statal "foundations" (*bonyads*), run by powerful former officials, and there are special trading privileges for them and the bazaar merchants, a key constituency for some conservatives. The same privileges reportedly apply to businesses run by the Revolutionary Guard, as discussed below. As an indication of his relative unpopularity with well educated Iranians, students protested Ahmadinejad during a speech at Tehran's Amir Kabir University in November 2006. Other student protests against him took place on October 8, 2007, and since.

Mahmoud Ahmadinejad
First non-cleric to be president of the Islamic republic since the assassination of then president Mohammad Ali Rajai in August 1981. About 52, he campaigned as a "man of the people," the son of a blacksmith who lives in modest circumstances, who would promote the interests of the poor and return government to the principles of the Islamic revolution during the time of Ayatollah Khomeini. His official biography says he served with the "special forces" of the Revolutionary Guard, and he served subsequently (late 1980s) as a deputy provincial governor. A part of the "Isargaran" faction composed of former Guard and Basij (volunteer popular forces) leaders and other hardliners. U.S. intelligence reportedly determined he was not, as was thought by some, one of the holders of the 52 American hostages during November 1979-January 1981. Other accounts say Ahmadinejad believes his mission is to prepare for the return of the 12th Imam - Imam Mahdi – whose return from occultation would, according to Twelver Shiite doctrine, be accompanied by the establishment of Islam as the global religion. Earned clerical criticism in May 2008 for again invoking intervention by Imam Mahdi in present day state affairs. In an October 2006 address, Ahmadinejad said, "I have a connection with God." For more information, see CRS Report RS22569, *Iran: Profile of President Mahmoud Ahmadinejad*, by Hussein Hassan.

Table 3. Selected Economic Indicators

Economic Growth	4.3% (2007 est.)
Per Capita Income	$8,100/yr purchasing power parity
Proven Oil Reserves	135 billion barrels (highest after Russia and Canada)
Oil Production/Exports	4.1 million barrels per day (mbd)/ 2.4 mbd exports. Exports could shrink to zero by 2015-2020 due to accelerating domestic consumption.
Major Oil/Gas Customers	China — 300,00 barrels per day (bpd); about 4% of China's oil imports; Japan — 600,000 bpd, about 12% of oil imports; other Asia (mainly South Korea) — 450,000 bpd; Italy — 300,000 bpd; France — 210,000 bpd; Netherlands 40,000 bpd; other Europe — 200,000 bpd; India — 150,000 bpd (10% of its oil imports; Africa — 200,000 bpd. Turkey — gas: 8.6 billion cubic meters/yr
Refined Gasoline Import/ Suppliers	Imports were $5 billion value per year in 2006, but now about $4 billion per year after rationing. 60% is supplied by European oil trader Vitol, (other traders include Russia's Lukoil). Direct suppliers include refineries in: India, Kuwait, UAE, Turkey, Venezuela, Singapore, Netherlands, China, Turkmenistan, Azerbaijan. Iran planning at least eight new or upgrade refinery projects to expand capacity to about 3 million barrels per day from 1.5 mbd.
Major Export Markets (2006)	Japan ($9.9 billion); China ($9.2 billion); Turkey ($5.1 billion); Italy ($4.45 billion); South Korea ($4 billion); Netherlands ($3.2 billion); France ($2.7 billion); South Africa ($2.7 billion); Spain ($2.3 billion); Greece ($2 billion)
Major Imports From (2006)	Germany ($5.6 billion); China ($5 billion); UAE ($4 billion); S. Korea ($2.9 billion); France ($2.6 billion); Italy ($2.5 billion); Russia ($1.7 billion); India ($1.6 billion); Brazil ($1.3 billion); Japan ($1.3 billion).
Export Credit Guarantees (2006)	Germany $715 million, down from $2 billion in 2005; France — $3.8 billion, down from $5.7 billion in 2005.
Major Non-Oil Investments	Renault (France) and Mercedes (Germany)- automobile production in Karaj, Iran — valued at $370 million; Renault (France), Peugeot (France) and Volkswagen (Germany) — auto parts production; Turkey — Tehran airport, hotels; China — shipbuilding on Qeshm Island, aluminum factory in Shirvan, cement plant in Hamadan; UAE financing Esfahan Steel Company; India — steel plant, petrochemical plant; S. Korea — steel plant in Kerman Province; S. Korea and Germany — $1.7 billion to expand Esfahan refinery.
Trade With U.S. (2006)	$242 million (trade is severely restricted by U.S. sanctions). Exports to U.S. — $157 million (large categories: pomegranate juice, caviar, pistachio nuts, carpets, medicines, artwork). Imports from U.S. — $85 million (food, medicines, tobacco products).
Foreign Exchange	$40 billion+
External Debt	$19 billion (2005 est.)
Development Assistance Received	2003 (latest available): $136 million grant aid. Biggest donors: Germany ($38 million); Japan ($17 million); France ($9 million).
Inflation	18%+ (2007), according to Iranian economists.
Unemployment Rate	11%+

Source: CIA World Factbook, various press, IMF, Iran Trade Planning Division (2006), press

Human Rights Practices and the Opposition

The regime appears to have a relatively firm grip on power, in part because Iran's leaders have taken numerous steps to suppress dissent. However, Iranian opinion is hard to gauge and even seemingly low level unrest has the potential to spiral into a potential threat to the regime. Successive U.S. administrations have not generally considered Iran's human rights practices as a strategic threat to U.S. interests, but the Bush Administration has highlighted Iran's human rights record in order to build international consensus to pressure Iran. The State Department's human rights report for 2007, released March 11, 2008, said Iran's already poor human rights record "worsened" during the year – a formulation similar to that used in the report for 2006. The latest human rights report, and the 2007 State Department "religious freedom" report (released September 14, 2007), cites Iran for widespread serious abuses, including unjust executions, politically motivated abductions by security forces, torture, arbitrary arrest and detention, and arrests of women's rights activists.

Table 4. Human Rights Practices and Dissent[4]

Group/ Issue	Regime Practice/Recent Developments
Ethnic and Religious Breakdown	Persians are about 51% of the population, and Azeris (a Turkic people) are about 24%. Kurds are about 7% of the population, and about 3% are Arab. Of religions, Shiite Muslims are about 90% of the Muslim population and Sunnis are about 10%. About 2% of the population is non-Muslim, including Christians, Zoroastrians (an ancient religion in what is now Iran), Jewish, and Baha'i.
Private Media	Since 2000, judicial hardliners have closed hundreds of reformist newspapers, although many have tended to reopen under new names. During March 26 - March 2007, authorities banned more than 20 publications. Iran also has blocked hundreds of pro-reform websites. During 2007, regime increased controls over use of the internet because citizens have increasingly turned to that medium as a source for news and political debate. In August 2007, the government closed a major reformist daily newspaper, *Shargh*, which had previously been suspended repeatedly. In February 2008, the regime closed the main women's magazine, Zanan (women in Farsi) for allegedly highlighting gender inequality in Islamic law.
Labor Unions/ Students	Unions are technically not independent, but under a state-controlled "Workers' House" umbrella. However, some activists show independence and, in 2007, the regime arrested labor activists for teachers' associations, bus drivers'unions, and a bakery workers' union. The regime reportedly also dissolved student unions and replaced them with regime loyalists following student criticism of Ahmadinejad. H.Con.Res. 203 condemns Iran's July 2007 arrests of several union officers.

[4] Sources: State Department reports on human rights and on religious freedom. [http://www.state.gov/g/drl/rls/hrrpt/2006/78852.htm]; [http://www.state.gov/g/drl/rls/irf/2005/51599.htm].

Group/ Issue	Regime Practice/Recent Developments
Women	Regime strictly enforcing requirement that women fully cover themselves in public, generally with a garment called a *chador*, including through detentions. In March 2007, the regime arrested 31 women activists who were protesting the arrest in 2006 of several other women's rights activists; all but 3 of the 31 were released by March 9. In May 2006, the Majles passed a bill calling for increased public awareness of Islamic dress, an apparent attempt to persuade women not to violate the dress code or wear Western fashion. The bill did not contain a requirement that members of Iran's minority groups wear badges or distinctive clothing. In April 2006, Ahmadinejad directed that women be allowed to attend soccer matches, but the Supreme Leader reversed that move. Women can vote and run in parliamentary elections, but their candidacies for president have routinely been barred by the Council of Guardians. Iranian women can drive, and many work outside the home, including owning and running their own businesses. There are nine women in the 290-seat Majles, down from 13 in the previous Majles.
Religious Freedom	Each year since 1999, the State Department religious freedom report has named Iran as a "Country of Particular Concern" under the International Religious Freedom Act, and continued deterioration in Iran's practices on this issue was noted in the International Religious Freedom report for 2007. (No sanctions have been added because of this designation, on the grounds that Iran is already subject to extensive U.S. sanctions.)
Baha'is	Iran repeatedly cited for repression of the Baha'i community, which Iran's Shiite Muslim clergy views as a heretical sect. In the 1990s, several Baha'is were executed for apostasy (Bahman Samandari in 1992; Musa Talibi in 1996; and Ruhollah Ruhani in 1998). Another, Dhabihullah Mahrami, was in custody since 1995 and died of unknown causes in prison in December 2005. In February 2000, Iran's Supreme Court set aside the death sentences against three other Baha'is. A wave of Baha'i arrests occurred in May 2006 and two-thirds of university students of the Baha'i faith were expelled from university in 2007. Several congressional resolutions have condemned Iran's treatment of the Baha'is, including in 1982, 1984, 1988, 1990, 1992, 1994, 1996, 2000, and 2006. In the 110th Congress, H.Res. 1008 condemns Iran's treatment of the Baha'is.
Jews	Along with Christians, a "recognized minority," with one seat in the Majles, the 30,000-member Jewish community (the largest in the Middle East aside from Israel) enjoys somewhat more freedoms than Jewish communities in several other Muslim states. However, in practice the freedom of Iranian Jews to practice their religion is limited, and Iranian Jews remain reluctant to speak out for fear of reprisals. During 1993-1998, Iran executed five Jews allegedly spying for Israel. In June 1999, Iran arrested 13 Jews (mostly teachers, shopkeepers, and butchers) from the Shiraz area that it said were part of an "espionage ring" for Israel. After an April-June 2000 trial, ten of the Jews and two Muslims accomplices were convicted (July 1, 2000), receiving sentences ranging from 4 to 13 years. An appeals panel reduced the sentences, and all were released by April 2003.
Sunnis	The State Department reports note other discrimination against Sufis and Sunni Muslims, although abuses against Sunnis could reflect that minority ethnicities, including Kurds, are mostly Sunnis. In addition, the regime repressed 2006 unrest among the minority Azeri population, as well as Arabs in the southern province of Khuzestan.
Human Trafficking	The June 12, 2007 (latest annual), State Department "Trafficking in Persons" report continues to place Iran in Tier 3 (worst level) for failing to take action to prevent trafficking in persons. Girls purportedly are trafficked for sexual exploitation within Iran and from Iran to Turkey, Pakistan, and the Gulf states.

Prominent Dissidents. The regime is highly concerned about dissidents who previously held senior regime positions. These dissidents are popular inside Iran, but their ascendancy, were it to occur, might not fundamentally alter Tehran's foreign or defense policies. One such figure, Ayatollah Hossein Ali Montazeri, was released in January 2003 from several years of house arrest, but he remains under virtual house arrest. He had been Khomeini's designated successor until 1989, when Khomeini dismissed him for allegedly protecting intellectuals and other opponents of clerical rule. Another senior cleric who takes similar positions, Ayatollah Mohammad Kazemeni Boroujerdi, was arrested on October 8, 2006. Dissidents with similar views include theoretician Abd al-Karim Soroush, former Interior Minister Abdollah Nuri, and former hostage-holder Abbas Abdi, who had been arrested in 2002 for publishing an opinion poll purporting to show that the Iranian public favors restoring relations with the United States.

Other, less prominent dissidents have sought to challenge or expose the regime's practices from inside Iran. Journalist Akbar Ganji conducted hunger strikes to protest regime oppression; he was released on schedule on March 18, 2006 after sentencing in 2001 to six years in prison for alleging high-level involvement in a series of murders of Iranian dissident intellectuals that the regime had blamed on "rogue agents" in the security apparatus. The Bush Administration issued a statement calling for his release on July 12, 2005. Canadian journalist (of Iranian origin) Zahra Kazemi died in detention in 2003, allegedly of beating. She had been detained in July 2003 for filming outside Tehran's Evin prison. An intelligence agent who allegedly conducted the beating was acquitted on July 25, 2004, prompting accusations that the investigation and trial were unfair. The prosecutor in her case, Saeed Mortazavi, allegedly responsible for numerous human rights abuses, was Iran's representative to the inaugural meeting of the U.N. Human Rights Council.

Exile Groups: People's Mojahedin Organization of Iran (PMOI). Of the groups seeking to replace the regime outright, one of the best known is the People's Mojahedin Organization of Iran (PMOI).[5] Secular and left-leaning, it was formed in the 1960s to try to overthrow the Shah of Iran and advocated Marxism blended with Islamic tenets. It allied with pro-Khomeini forces during the Islamic revolution and supported the November 1979 takeover of the U.S. Embassy in Tehran but was later driven into exile. Even though it is an opponent of Tehran, since the late 1980s the State Department has refused contact with the PMOI and its umbrella organization, the National Council of Resistance (NCR). The State Department designated the PMOI as a foreign terrorist organization (FTO) in October 1997[6] and the NCR was named as an alias of the PMOI in the October 1999 re-designation. The FTO designation was prompted by PMOI attacks in Iran that sometimes kill or injure civilians — although the group does not appear to purposely target civilians. In August 14, 2003, the State Department designated the NCR offices in the United States an alias of the PMOI, and NCR and Justice Department authorities closed down those offices. In June 2003, France arrested about 170

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

[6] The designation was made under the authority of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132).

PMOI members, including its co-leader Maryam Rajavi (wife of PMOI founder Masoud Rajavi, whereabouts unknown); she was released and remains based in France, and is occasionally received by European parliamentarians and other politicians. In December 2006, a European Union (EU) court struck down EU's freezing of the PMOI's assets in Europe.

The State Department report on international terrorism for 2007 asserts that the organization — and not just a radical element of the organization as the group asserts — was responsible for the alleged killing of seven American defense advisers to the former Shah in 1975-1976. The State Department report again notes the group's promotion of women in its ranks and again emphasizes the group's "cult-like" character, including indoctrination of its members and separation of family members, including children, from its activists.

The group's alliance with Saddam Hussein's regime in the 1980s and 1990s contributed to the U.S. shunning of the organization. U.S. forces attacked PMOI military installations in Iraq during Operation Iraqi Freedom and negotiated a ceasefire with PMOI military elements in Iraq, requiring the approximately 3,350 PMOI fighters to remain confined to their Ashraf camp near the border with Iran. Its weaponry is in storage, guarded by U.S. and now Bulgarian military personnel. Another 350 PMOI fighters have taken advantage of an arrangement between Iran and the ICRC for them to return home if they disavow further PMOI activities. Another 200 are in the process of leaving Ashraf if a host country could be found.

Press reports say that some Administration officials want the group removed from the FTO list and want a U.S. alliance with it against the Tehran regime.[7] In November 2002, a letter signed by about 150 House Members was released, asking the President to remove the PMOI from the FTO list.[8] Those advocating that policy take heart from the U.S. decision in July 2004 to grant the Ashraf detainees "protected persons" status under the 4th Geneva Convention, meaning they will not be extradited to Tehran or forcibly expelled as long as U.S. forces remain in Iraq. At the same time, some Iraqi leaders from pro-Iranian factions, including Prime Minister Nuri al-Maliki, have said that the group would be expelled.

The Son of the Former Shah. Some Iranian exiles, as well as some elites still in Iran, want to replace the regime with a constitutional monarchy led by Reza Pahlavi, the U.S.-based son of the late former Shah and a U.S.-trained combat pilot. However, he does not appear to have large-scale support inside Iran. In January 2001, the Shah's son, who is about 50 years old, ended a long period of inactivity by giving a speech in Washington, DC, calling for unity in the opposition and the institution of a constitutional monarchy and democracy in Iran. He has since broadcast messages

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

[8] "Removal of Iran Group From Terror List Sought." *Washington Post*, November 23, 2002.

into Iran from Iranian exile-run stations in California.[9] His political adviser is MIT-educated Shariar Ahy.

Other Exiled Activists. Numerous other Iranians in exile want to see a change of regime in Tehran. Many of them are based in California, where there is a large Iranian-American community, and there are about 25 small-scale radio or television stations that broadcast into Iran. Some organizations, such as The National Iranian American Council (NIAC), are not necessarily seeking influence inside Iran but generally try to promote discussion of U.S. policy, including possible engagement with Iran. Some well-known U.S.-based activists include *The Abdorrahman Boroumand Foundation;* and *the Iran Human Rights Documentation Center (IHDC).* The center is run by persons mostly of Iranian origin and affiliated with Yale University's Griffin Center for Health and Human Rights. It is documenting abuses in Iran, using contacts with Iranians in Iran. Another exile is *Amir Abbas Fakravar,* a leader of the student dissidents who emerged in the July 1999 anti-regime student riots. A former medical student, he served time in Iranian prisons.

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

Iran's Strategic Capabilities and Weapons of Mass Destruction Programs

The Administration's "National Security Strategy" document released March 16, 2006 — which continues to represent a prevailing and perhaps even growing Administration view — says the United States "may face no greater challenge from a single country than from Iran." The perception is based largely on Iran's growing weapons of mass destruction (WMD) programs and its ability to exert influence in the region counter to U.S. objectives.[10] Iran's national security goals are to protect itself from foreign, primarily U.S., interference or attack, and to be able to protect and defend the Shiite Islamic world that Iran sees as oppressed by the more numerous and dominant Sunnis. Iran's advanced and other conventional weaponry is deemed to pose a less significant threat than its WMD, but Iran's forces could still, in some cases, threaten U.S. forces and allies in the Gulf region, as discussed later.

Conventional Military/Revolutionary Guard/Qods Force

Iran's armed forces are extensive but widely considered relatively combat ineffective against a well-trained, sophisticated military such as that of the United States. Iran's forces are believed to be sufficiently effective to deter or fend off conventional threats from Iran's weaker neighbors such as post-war Iraq,

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

[10] See [http://www.whitehouse.gov/nsc/nss/2006/].

Turkmenistan, Azerbaijan, and Afghanistan but are largely lacking in logistical ability to project power much beyond Iran's borders or to confront militarily capable neighbors such as Turkey and Pakistan. Iran's armed forces have few formal relationships with foreign militaries, but Iran and India have a "strategic dialogue" and some Iranian naval officers reportedly are being trained in India. Iran and Turkey say they will soon sign (April 2008) an agreement to jointly fight terrorism and secure their joint border. Most other military relationships between Iran and other countries, such as Russia, Ukraine, Belarus, North Korea, and a few others generally center on Iranian arms purchases or upgrade contracts.

The Islamic Revolutionary Guard Corps (IRGC),[11] which also controls the *Basij* (mobilization) volunteer militia that enforces adherence to Islamic customs, is generally loyal to the hardliners politically and is clearly more politically influential than is Iran's regular military, which is larger but was held over from the Shah's era. The two forces, the Guard and the regular military, technically report to a Joint Headquarters. As further evidence of the Guard's pre-eminence, Chairman of the Joint Chiefs of Staff Admiral Mike Mullen said on November 29, 2007 that the IRGC Navy now has responsibility to patrol the entire Persian Gulf, and that the regular Navy is patrolling the Strait of Hormuz and Gulf of Oman.

In IRGC leadership developments, on September 2, 2007, Khamene'i replaced Rahim Safavi with Mohammad Ali Jafari as Commander In Chief of the Guard; Jafari is considered a hardliner against political dissent, but he is believed politically aligned with Rafsanjani and former Guard chief Mohsen Reza'i, rather than with Ahmadinejad. In December 2007, Jafari briefly took direct control of the *Basij*, which operates from thousands of positions in Iran's institutions, and indicated he would increase its role in monitoring and suppressing dissent. Later, the *Basij* command was given to senior Guard leader Mohammad Baqr Zolqadr, who had been serving as deputy Interior Minister, but was dismissed by Ahmadinejad in December 2007. More information on Iran's military and how it might perform in combat against the United States is discussed under "military options" later in this paper.

The Guard also has a unit, the Qods (Jerusalem) Force, that operates outside Iran to assist pro-Iranian movements with weapons, training, and finances. The Guard is also increasingly involved in Iran's economy, acting through a network of contracting businesses it has set up, most notably Ghorb (also called Khatem ol-Anbiya, Persian for "Seal of the Prophet"). Active duty IRGC senior commanders reportedly serve on Ghorb's board of directors. For the role of the Guard/Qods Force in external activities, see below under "Foreign Policy and Terrorism."

In the 110th Congress, a provision of H.R. 1400 (passed by the House on September 25), S. 970, and the conference report on H.R. 4986 (FY2008 defense authorization bill, P.L. 110-181; Guard-related Senate amendment adopted September 6 by vote of 76-22) calls for the Revolutionary Guard to be designated a foreign terrorist organization, or FTO. On October 25, 2007, the Administration took a somewhat lesser step by naming the Guard, the Ministry of Defense, and

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[11] For a more extensive discussion of the IRGC, see Katzman, Kenneth. "The Warriors of Islam: Iran's Revolutionary Guard," *Westview Press*, 1993.

several of the Guard's commanders and construction firms, as well as several Iranian banks, as proliferation entities under Executive Order 13382. The Qods Force of the Guard, along with Bank Saderat, was named as a "specially designated global terrorist entity" under Executive Order 13224. Both orders freeze the U.S.-based assets and prevent U.S. transactions with the named entities, but these entities are believed to have virtually no U.S.-based assets that could be frozen - the main penalties of Executive Order 13382 and 13324. The U.S. action might have substantial effect on the Guard and its business entities if U.S. partner countries and others adopt similar sanctions.

Table 5. Iran's Conventional Military Arsenal

Military Personnel	Tanks	Surface-Air Missiles	Combat Aircraft	Ships	Defense Budget (billions U.S. $)
545,000 (regular military and Revolutionary Guard Corps (IRGC)). IRGC is about one-third of total force.	1,693 (incl. 480 T-72)	150 I-Hawk plus some Stinger	280 (incl. 25 MiG-29 and 30 Su-24)	200 (incl. 10 Chinese-made Hudong, 40 Boghammer, 3 frigates) Also has 3 Kilo subs	6.6
"Qods Forces" of IRGC. Approximately 10,000 - 15,000 total in the Qods Force, which promotes Iran's regional and global objectives through advisory support to pro-Iranian factions in Lebanon, Iraq, Persian Gulf states, Afghanistan, and Central Asia. Also operates worldwide intelligence network to give Iran possible terrorist option and to assist in procurement of WMD-related technology.					
Ship-launched cruise missiles. Iran is able to arm its patrol boats with Chinese-made C-802 cruise missiles. Iran also has Chinese-supplied HY-2 Seerseekers emplaced along Iran's coast.					
Midget Subs. Iran is said to possess several, possibly purchased assembled or in kit form from North Korea. Iran claimed on Nov. 29, 2007 to have produced a new small sub equipped with sonar-evading technology.					
Anti-aircraft missile systems. Russia has sold and now delivered to Iran (January 2007) 30 anti-aircraft missile systems (Tor M1), worth over $1 billion. In September 2006, Ukraine agreed to sell Iran the Kolchuga radar system that can improve Iran's detection of combat aircraft. In December 2007, Russia agreed to sell the even more capable SA-20 air defense system, purportedly modeled after the U.S. Patriot system, which U.S. officials say would greatly enhance Iran's air defense capability.					

Nuclear Program and Related Sanctions

Since early 2007, Iran and the international community have appeared to approach a crisis over Iran's nuclear program as many governments asserted their belief that Iran is attempting to achieve a nuclear weapons capability. U.S. policy, as stated repeatedly by President Bush, Vice President Cheney, and other senior officials is that a nuclear Iran is unacceptable and that U.S. policy is to prevent that outcome. Still, debate persists over Iran's nuclear intentions as well as its capabilities, not to mention how best to ensure that Iran's program is for peaceful purposes only.

International scrutiny of Iran's nuclear program intensified after 2002, when Iran confirmed PMOI allegations that it was building two facilities that could be used to produce fissile material useful for a nuclear weapon: a uranium enrichment facility at Natanz and a heavy water production plant at Arak,[12] considered ideal for the production of plutonium. It was revealed in 2003 that the founder of Pakistan's nuclear weapons program, Abdul Qadeer (A.Q.) Khan, sold Iran nuclear technology and designs.[13] The International Atomic Energy Agency (IAEA), despite intensified inspections of Iran's facilities since late 2002, has said it cannot verify that Iran's current program is purely peaceful, and several of its reports (January 31, 2006, February 27, 2006, and May 26, 2008) say it found documents that show a possible involvement of Iran's military in procuring technology for Iran's program. The May 26, 2008 IAEA report, as have some of its previous reports, refer to a "Green Salt" project of testing of relevant high explosives and of missile re-entry vehicles. A National Intelligence Estimate (unclassified key judgments), released December 3, 2007,[14] cast doubt on the most alarming interpretations of Iran's program (as well as on that of a previous NIE issued in May 2005), saying that Iran had — but in late 2003 halted — a covert nuclear weapons program as a result of increased international scrutiny and pressure.

Iranian leaders continue to assert that Iran's nuclear program is for electricity generation. Iran says its oil resources are finite and that enriching uranium to make nuclear fuel is allowed under the 1968 Nuclear Non-Proliferation Treaty,[15] to which Iran is a party. An analysis was published by the National Academy of Sciences challenging the U.S. view that Iran is petroleum rich and therefore has no need for a nuclear power program. According to the analysis, the relative lack of investment is causing a rapid decline in Iranian oil exports to the point where Iran might have

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[12] In November 2006, the IAEA, at U.S. urging, declined to provide technical assistance to the Arak facility on the grounds that it was likely for proliferation purposes.

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

[14] Text at [http://www.dni.gov/press_releases/20071203_release.pdf]

[15] For Iran's arguments about its program, see Iranian paid advertisement "An Unnecessary Crisis — Setting the Record Straight About Iran's Nuclear Program," in the *New York Times*, November 18, 2005. P. A11.

negligible exports of oil by 2015.[16] U.S. officials say that Iran's vast gas resources make a nuclear energy program unnecessary.

Despite Iran's professions that WMD is inconsistent with its ideology, the NIE says it is likely that Iran will eventually try to develop a nuclear weapon. Iran's factions appear to agree on the utility of a nuclear weapons capability as a means of ending its perceived historic vulnerability to U.S. domination and a symbol of Iran as a major nation. Others believe Iran sees nuclear weapons as instruments to dominate the Persian Gulf, and these experts believe an Iranian nuclear weapon would dramatically shift the balance of power in the Gulf/Middle East in Iran's favor. There are also fears Iran might transfer WMD to extremist groups or countries.

Even though many countries are suspicious of Iran's nuclear goals, there is still major disagreement over the urgency of the issue. The Administration's key concern is that Iran is expanding its ability to produce enriched uranium. The NIE assessed that Iran will likely be technically capable of producing enough highly enriched uranium for a nuclear weapon some time during 2010-2015. IAEA Director El Baradei said on April 18, 2008 that Iran is now running about 3,300 centrifuges, considered a threshold number that could allow Iran to enrich enough uranium for a nuclear weapon. However, IAEA reports have said Iran had enriched uranium to only about 4% (90% is needed for a weapon), and that Iran still faces significant bottlenecks in enrichment. El Baradei's comments came about one week after Ahmadinejad said that Iran had begun installing an additional 6,000 centrifuges at its Natanz site. The February 22, 2008, IAEA report added, and press photos of an Ahmadinejad visit to Natanz in April 2008 show, that Iran is also testing a new generation of centrifuge design ("IR-2"). The IAEA report added that Iran had not addressed U.S. allegations that it had, prior to 2003, a nuclear weapons effort, but Iran reportedly agreed in April 2008 to address IAEA concerns on this issue. The May 26, 2008 IAEA report indicates Iran's responses have not cleared up outstanding questions on these issues.

At the same time, concerns continue over Russia's work, under a January 1995 contract, on an $800 million nuclear power plant at Bushehr. Russia insisted that Iran sign an agreement under which Russia would provide reprocess the plant's spent nuclear material; that agreement was signed on February 28, 2005. The plant was expected to become operational in 2007, but Russia had insisted (including during President Putin's visit to Iran in October 2007) that Iran first comply with the U.N. resolutions discussed below. In November 2007, perhaps to signal disagreement with further pressure on Iran, Russia began taking steps to fuel the reactor and, on December 17, shortly after the release of the NIE, began shipping the fuel. Iran has received at least seven fuel shipments, virtually all that is needed to become operational by June 2008. Iran says the fuel it is producing will be used for a second reactor planned for the Darkhovin area. As part of Russia's work with Iran, Russia has trained about 700 Iranian nuclear engineers.

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[16] Stern, Roger. "The Iranian Petroleum Crisis and United States National Security," P*roceedings of the National Academy of Sciences of the United States of America*. December 26, 2006.

Diplomatic Efforts in 2003 and 2004/Paris Agreement. In 2003, France, Britain, and Germany (the "EU-3") opened a separate diplomatic track to curb Iran's program. On October 21, 2003, Iran pledged, in return for peaceful nuclear technology, to (1) fully disclose its past nuclear activities, (2) to sign and ratify the "Additional Protocol" to the NPT (allowing for enhanced inspections), and (3) to suspend uranium enrichment activities. Iran signed the Additional Protocol on December 18, 2003, although the Majles has not ratified it. Iran abrogated the agreement after the IAEA reports of November 10, 2003, and February 24, 2004, stated that Iran had violated its NPT reporting obligations over an 18-year period. (The NIE released on December 3, 2007 appears to indicate that it was in conjunction with this October 2003 agreement with the EU-3 that Iran might have halted its covert nuclear weapons work.)

In the face of the U.S. threat to push for Security Council action, the EU-3 and Iran reached a more specific November 14, 2004, "Paris Agreement," committing Iran to suspend uranium enrichment (which it did as of November 22, 2004) in exchange for renewed trade talks and other aid.[17] EU-3 — Iran negotiations on a permanent nuclear pact began on December 13, 2004, and related talks on a trade and cooperation accord (TCA) began in January 2005. On March 11, 2005, the Bush Administration announced it would support, but not join, the EU-3 talks by offering to drop U.S. objections to Iran's application to the World Trade Organization (which it did in May 2005) and to consider sales of U.S. civilian aircraft parts to Iran.

Reference to the Security Council. The Paris Agreement broke down just after Ahmadinejad's election, when Iran rejected as insufficient an EU-3 offer to assist Iran with peaceful uses of nuclear energy and provide limited security guarantees in exchange for Iran's (1) permanently ending uranium enrichment; (2) dismantling the Arak heavy water reactor;[18] (3) agreement to no-notice nuclear inspections; and (4) a pledge not to leave the NPT (which has a legal exit clause). On August 8, 2005, Iran broke the IAEA seals on its uranium "conversion" (one step before enrichment) facility at Esfahan and began conversion. On September 24, 2005, the IAEA Board voted to declare Iran in non-compliance with the NPT and to refer the issue to the Security Council,[19] but no time frame was set for the referral. Iran did not cease uranium conversion. The Administration supported a November 2005 Russian proposal to Iran to establish a facility in Russia at which Iranian uranium would be enriched, thereby enabling Iran to claim it had retained its right to enrich. Iran did not accept the proposal.

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[17] For text of the agreement, see [http://www.iaea.org/NewsCenter/Focus/IaeaIran/eu_iran 14112004.shtml].

[18] In November 2006, the IAEA, at U.S. urging, declined to provide technical assistance to the Arak facility on the grounds that it was likely for proliferation purposes.

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

In January 2006, Iran resumed enrichment activities, and on February 4, 2006, the IAEA board voted 27-3[20] for a resolution to report Iran to the U.N. Security Council. On March 29, 2006, the Council agreed on a Council presidency "statement" setting a 30-day time limit (April 28, 2006) for Iran to cease enrichment.[21]

Establishment of "P5+1" Contact Group/June 2006 Incentive Package. Because of opposition from Russia and China to immediately punishing Iran, as well as to build support for possible international or multilateral sanctions, the Administration offered on May 31, 2006, to join the nuclear talks with Iran if Iran first suspends its uranium enrichment. Such talks would center on a package of incentives and possible sanctions that were agreed to on June 1, 2006, by a newly formed group of negotiating nations, the so-called "Permanent Five Plus 1" (P5+1: United States, Russia, China, France, Britain, and Germany). EU representative Javier Solana formally presented the offer to Iran on June 6, 2006. (The incentive package is formally outlined in Annex I to U.N. Resolution 1747, see below.)

Incentives

- Negotiations on an EU-Iran trade agreements and acceptance of Iran into the World Trade Organization.
- Easing of U.S. sanctions to permit sales to Iran of commercial aircraft or aircraft parts.
- Sale to Iran of a light-water nuclear reactor and guarantees of nuclear fuel (including a five year buffer stock of fuel), and possible sales of light-water research reactors for medicine and agriculture applications.
- An "energy partnership" between Iran and the EU, including help for Iran to modernize its oil and gas sector and to build export pipelines.
- Support for a regional security forum for the Persian Gulf, and support for the objective of a WMD free zone for the Middle East.
- The possibility of eventually allowing Iran to resume uranium enrichment if it complies with all outstanding IAEA requirements and can prove that its nuclear program is purely for peaceful purposes.

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[20] Voting no: Cuba, Syria, Venezuela. Abstaining: Algeria, Belarus, Indonesia, Libya, South Africa.

[21] See [http://daccessdds.un.org/doc/UNDOC/GEN/N06/290/88/PDF/N0629088.pdf?OpenElement].

Reported Sanctions[22]

- Denial of visas for Iranians involved in Iran's nuclear program and for high-ranking Iranian officials.
- A freeze of assets of Iranian officials and institutions; a freeze of Iran's assets abroad; and a ban on some financial transactions.
- A ban on sales of advanced technology and of arms to Iran; and a ban on sales to Iran of gasoline and other refined oil products.
- An end to support for Iran's application to the WTO.

Resolution 1696. Iran did not immediately give a formal response to the incentive offer. On July 31, 2006, the Security Council voted 14-1 (Qatar voting no) for U.N. Security Council Resolution 1696, giving Iran until August 31, 2006, to fulfill the longstanding IAEA nuclear demands (enrichment suspension, etc). Purportedly in deference to Russia and China, it was passed under Article 40 of the U.N. Charter, which makes compliance mandatory, but not under Article 41, which refers to economic sanctions, or Article 42, which would authorize military action. It called on U.N. member states not to sell Iran WMD-useful technology.

On August 22, 2006, Iran submitted a formal response to the June 6 offer by the six powers. The text of Iran's response was not disclosed, but it reportedly did not offer to suspend uranium enrichment, instead proposing negotiations on a broader roadmap of engagement with the West — and sought provision of guarantees that the United States would not seek regime change.

Resolution 1737. With the backing of the P5+1, chief EU negotiator Javier Solana negotiated with Iran to try arrange a temporary enrichment suspension. A round of talks, in Berlin, concluded on September 28, 2006, without agreement. After almost four months of negotiations, the Security Council agreed to U.N. Security Council Resolution 1737. It was passed unanimously on December 23, 2006, under Chapter 7, Article 41 of the U.N. Charter. It prohibits sale to Iran — or financing of such sale — of technology that could contribute to Iran's uranium enrichment or heavy-water reprocessing activities. It also required U.N. member states to freeze the financial assets of 10 named Iranian nuclear and missile firms and 12 persons related to those programs. See **Table 8**.

The Resolution did not mandate the banning of travel by these personalities, but called on member states not to admit them. It also provided an exemption, sought by Russia, for the Bushehr reactor. The EU foreign ministers agreed on February 12, 2007, to freeze the assets of the named entities and to impose broader restrictions on entities that might later be identified as assisting Iran's WMD program and to prevent the training of Iranians in Europe that might contribute to Iran's programs. U.S. implementation of the existing Resolutions has reportedly run into some difficulty

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[22] One source purports to have obtained the contents of the package from ABC News: [http://www.basicint.org/pubs/Notes/BN060609.htm]

because the United States lacks passport numbers and other data to track the assets or movements of the named Iranian personages.[23]

Resolution 1747 and Results. Resolution 1737 demanded enrichment suspension by February 21, 2007. An IAEA report sent to Board member countries that day said Iran continued its enrichment activities. In London on March 8, 2007, the P5+1 began formal discussions on a new Chapter 7 Security Council resolution that would presumably impose additional sanctions on Iran, quickly reaching agreement. On March 24, 2007, Resolution 1747 was adopted unanimously, which:

- added 10 military/WMD-related entities; 3 Revolutionary Guard entities; 8 persons, and 7 Revolutionary Guard commanders listed in **Table 8**. Bank Sepah is among the entities sanctioned.

- banned arms transfers by Iran, a provision targeted at Iran's alleged arms supplies to Lebanese Hezbollah and to Shiite militias in Iraq.

- required all countries to report to the United Nations when the sanctioned Iranian persons travel to their territories.

- called for (but did not require) countries to avoid selling arms or dual use items to Iran and to avoid any new lending or grants to Iran.

Resolution 1747 demanded Iran suspend enrichment by May 24, 2007. The IAEA report of May 23, 2007 stated that Iran did not comply, but the pressure of the Resolutions appeared to be altering Iran's nuclear decisionmaking. In August 2007, Iran agreed to sign with the IAEA an agreement to clear up outstanding questions on Iran's past nuclear activities by the end of 2007, although the agreement was criticized by the United States as not central to preventing Iran from achieving a nuclear capability. On that basis, the P5+1 grouping — along with the EU itself — agreed to a joint statement on September 28, 2007 (reiterated in November 2007), in which all the undersigned, including Russia and China, said they would negotiate another sanctions resolution if there is no progress reported by the IAEA in implementing the August 2007 agreement or in separate continued negotiations with EU representative Javier Solana. The IAEA report was circulated on November 15, 2007, saying that Iran had provided additional information on its past programs, but the report indicated that Iran had become less transparent on its current enrichment programs. On his separate diplomatic track, Solana bluntly characterized a November 30, 2007, meeting with new Iranian negotiator Sayid Jallili as "disappointing," suggesting no progress whatsoever.

Resolution 1803 and New Incentives. A further sanctions resolution took many months to negotiate, possibly because the NIE stalled momentum to further punish Iran, but Resolution 1803 was adopted by a vote of 14-0 (Indonesia abstaining) on March 3, 2008. The Resolution: (1) bans sales of dual use items to Iran; (2) authorizes, but does not require, inspections of cargo (carried by Iran Air

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[23] Weisman, Steven. Lack of ID Data Impedes U.N. Sanctions Against Iran. *New York Times*, September 17, 2007.

Cargo and Islamic Republic of Iran Shipping Line) suspected of shipping WMD-related goods; (3) imposes a travel ban on five Iranians named in Annex II to the Resolution and requires reports on international travel by 13 individuals named in Annex I; (4) calls for, but does not require, countries to prohibit financial transactions with Iran's Bank Melli and Bank Saderat; and (5) adds 12 entities to those sanctioned under Resolution 1737 (requiring asset freezes of these entities). However, the provisions are less than the United States and Britain had sought because they do not materially affect civilian trade or investment, but the Administration nonetheless hailed the Resolution as demonstrating that the international community remained unified in insisting Iran curb its nuclear program. Iran reacted defiantly to the passage of 1803.

Resolution 1803 also nodded to those countries that want to resolve the Iran nuclear issue through negotiations, and led to an Administration shift toward offering Iran enhanced incentives to induce its cooperation. The Resolution states that "China, France, Germany, the Russian Federation, the United Kingdom and the United States are willing to take further concrete measures on exploring an overall strategy of resolving the Iranian nuclear issue through negotiation on the basis of their June 2006 proposals." Suggesting that divisions in the international community over further punishments is widening, Russia and China blocked a proposed IAEA resolution, drafted by Britain, France, and Germany on March 5, 2008, to call on the IAEA to continue its investigations into Iran's alleged nuclear weapons-related experiments. The potential for additional sanctions is further discussed in the section on multilateral and international sanctions later.

Appearing to want to preserve a unified front, while still skeptical that new incentives would cause Iran to curb its nuclear program, the Bush Administration agreed to subsequent P5+1 negotiations on reviving and possibly expanding the June 2006 incentive package to induce Iranian cooperation, discussed above. The P5+1 met on April 16, 2008 in Shanghai, China but reportedly failed to agree on alterations to the June 2006 package. However, at a meeting in London on May 2, 2008, the powers did agree on a "refreshed" package of incentives to augment those in the June 2006 package. According to press reports (the exact offer was not made public), the powers included new language, beyond that in the June 2006 proposal, offering political cooperation with Iran, and enhanced incentives on energy cooperation. It is to be formally presented to Iran by EU envoy Solana in June 2008. Iran has tentatively rejected the new offer as little beyond what was already rejected in 2006, and instead issued a letter on May 13, 2008 to U.N. Secretary General Ban Ki Moon reiterating elements of its August 2006 response to the June 2006 offer. The main elements of Iran's offer include cooperation on resolving the Arab-Israeli dispute; countering drug trafficking in the region; combating terrorism; trade and investment; and energy cooperation, including an international consortium to produce nuclear fuel.

Table 6. Summary of Provisions of U.N. Resolutions on Iran Nuclear Program (1737, 1747, and 1803)

Require Iran to suspend uranium enrichment
Prohibit transfer to Iran of nuclear, missile, and dual use items to Iran, except for use in light water reactors
Prohibit Iran from exporting arms or WMD-useful technology
Freeze the assets of 40 named Iranian persons and entities, including Bank Sepah, and several Iranian front companies
Require that countries exercise restraint with respect to travel of 35 named Iranians and ban the travel of 5 others
Calls on states not to export arms to Iran or support new business with Iran
Calls for vigilance with respect to the foreign activities of all Iranian banks, particularly Bank Melli and Bank Saderat
Calls on countries to inspect cargoes carried by Iran Air Cargo and Islamic Republic of Iran Shipping Lines if there are indications they carry cargo banned for carriage to Iran.

Chemical Weapons, Biological Weapons, and Missiles

Official U.S. reports and testimony continue to state that Iran is seeking a self-sufficient chemical weapons (CW) infrastructure, and that it "may have already" stockpiled blister, blood, choking, and nerve agents — and the bombs and shells to deliver them. This raises questions about Iran's compliance with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. These officials and reports also say that Iran "probably maintain[s] an offensive [biological weapons] BW program ... and probably has the capability to produce at least small quantities of BW agents."

Ballistic Missiles/Warheads. Largely with foreign help, Iran is becoming self-sufficient in the production of ballistic missiles and, by U.S. accounts, already has the largest inventory of ballistic missiles in the Middle East. Tehran appears to view its ballistic missiles as an integral part of its strategy to deter or retaliate against forces in the region, including U.S. forces. However, Iran's technical capabilities are a matter of some debate among experts. The Bush Administration is seeking to establish sites in Europe, including Poland and the Czech Republic, to counter Iranian ballistic missiles, although Russia has opposed these locations as indications that the missile defense plans are a cover for systems directed against Russia. At the G-8 summit in June 2007, Russian President Vladimir Putin presented an alternative proposal to cooperate with the missile defense against Iran by allowing use of a radar facility in Azerbaijan that Russia leases. In October 2007, U.S. officials suggested the missile defense plan might be slowed or ended if the nuclear threat from Iran were alleviated, and Prime Minister of Poland, Donald Tusk, has been negotiating conditions in exchange for the deployments — for example U.S. funding of other Polish military modernizations.

Table 7. Iran's Ballistic Missile Arsenal

Shahab - 3	800 mile range. Two of first three tests (July 1998, July 2000, and September 2000) reportedly inconclusive or unsuccessful. Apparently successful tests in June 2003; Iran subsequently called missile operational (capable of hitting Israel). Despite claims, some U.S. experts say the missile not completely reliable, and Iran tested a purportedly more accurate version on August 12, 2004. Iran called the test successful, although some observers said Iran detonated it in mid-flight. On May 31, 2005, Iran announced it had tested a solid-fuel version.
"Shahab - 4"	1,200 mile range. In October 2004, Iran announced it had extended range of the Shahab-3 to 1,200 miles, and it added in early November 2004 that it is capable of "mass producing" this "Shahab-4." *Agence France Presse* report (February 6, 2006) said test in January 2006 was successful. Related missiles claimed produced by Iran - both of about 1,200 mile range, include the "Ashoura" (claimed in November 2007) and the "Ghadr" (displayed at military parade in September 2007. If Iran's claims are accurate, large portions of the Near East and Southeastern Europe would be in range, including U.S. bases in Turkey. On March 31, 2006, Iran claimed to have tested a missile, possibly a *Shahab-4*, with separately targeted warheads.
BM-25	1,500 mile range. On April 27, 2006, Israel's military intelligence chief said that Iran had received a shipment of North Korean-supplied BM-25 missiles. Missile said to be capable of carrying nuclear warheads. The *Washington Times* appeared to corroborate this reporting in a July 6, 2006, story, which asserted that the North Korean-supplied missile is based on a Soviet-era "SS-N-6" missile.
ICBM	U.S. officials believe Iran might be capable of developing an intercontinental ballistic missile (3,000 mile range) by 2015.[24] In February 2008 Iran claimed to have launched a probe into space, suggesting its missile technology might be improving to the point where an Iranian ICBM is an increasingly realistic possibility.
Other Missiles	On September 6, 2002, Iran said it successfully tested a 200 mile range "Fateh 110" missile (solid propellent), and Iran said in late September 2002 that it had begun production.[25] Iran also possesses a few hundred short-range ballistic missiles, including the *Shahab-1* (Scud-b), the *Shahab-2* (Scud-C), and the *Tondar-69* (CSS-8).
Warheads	*Wall Street Journal* report of September 14, 2005, said that U.S. intelligence believes Iran is working to adapt the Shahab-3 to deliver a nuclear warhead. Subsequent press reports say that U.S. intelligence captured an Iranian computer in mid-2004 showing plans to construct a nuclear warhead for the Shahab.[26] The IAEA is seeking additional information from Iran.

[24] "Greater U.S. Concern About Iran Missile Capability." Reuters, March 11, 2002.

[25] "Iran: New Missile on the Assembly Line." *New York Times*, September 26, 2002.

[26] Broad, William and David Sanger. "Relying On Computer, U.S. Seeks to Prove Iran's Nuclear Aims." *New York Times*, November 13, 2005.

Foreign Policy and Support for Terrorist Organizations

Iran's foreign policy is a product of the ideology of Iran's Islamic revolution, blended with long-standing national interests, and is intended largely to overturn the "status quo" in the Middle East that Iran believes favors the United States, Israel, and Sunni Muslim regimes. The State Department report on international terrorism for 2007, released April 30, 2008, again stated (as it has for more than a decade) that Iran "remained the most active state sponsor of terrorism" in 2007, and it again attributed the terrorist activity primarily to the Revolutionary Guard [presumably the Qods Force]. The report focused particular attention on Iran's lethal support to Shiite militias in Iraq as well as on shipments to Taliban fighters in Afghanistan.[27]

Relations with the Persian Gulf States.[28] The Persian Gulf states are highly concerned about the growing strategic influence of Iran but they do not openly support U.S. conflict with Iran that might cause Iran to retaliate against Gulf state targets. During the 1980s and early 1990s, Iran, through the Qods Force and the MOIS, sponsored Shiite Muslim extremist groups opposed to the Sunni Muslim-led monarchy states of the 6-member Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). However, Iran's efforts to "export" its Islamic revolution were unsuccessful and caused the Gulf states to ally closely with the United States. During Khatemi's presidency, Iran reduced support for Gulf Shiite dissident movements there. In part to counter Iran's perceived growing influence in the Gulf, in December 2006 the summit of the GCC leaders announced that the GCC states might jointly study their own development of "peaceful nuclear technology." On the other hand, seeking to avoid further tensions with Iran, the GCC leaders invited Ahmadinejad to observe and speak at the December 2-3, 2007 summit of the GCC leaders in Doha, Qatar - the first time an Iranian president has been invited to the meeting since the GCC was formed in 1981. His speech reiterated a consistent Iranian theme that the Gulf countries, including Iran, should set up their own security structure without the help of "outside powers."

- *Saudi Arabia*. Many observers closely watch the relationship between Iran and Saudi Arabia because of Saudi alarm over the emergence of a pro-Iranian government in Iraq and Iran's ascendancy in Lebanon. Saudi Arabia sees itself as leader of the Sunni Muslim world and views Shiite Muslims as heretical and disloyal internally. Saudi leaders are concerned that Iran's nuclear program will further strengthen Iran strategically but the Saudis also worry about the potential for Iranian reaction against the Kingdom should the United States take military action to stop Iran's program. The Saudis, who do not want a repeat of Iran's sponsorship of disruptive and sometimes violent demonstrations at annual Hajj

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[27] U.S. Department of State. *Country Reports on Terrorism 2007*. Released April 30, 2008. [http://www.state.gov/s/ct/rls/crt/2007/103711.htm].

[28] See CRS Report RL31533, *The Persian Gulf States: Issues for U.S. Policy, 2006*, by Kenneth Katzman.

pilgrimages in Mecca in the 1980s and 1990s — or an increase in Iranian support for Saudi Shiite dissidents — are receptive to easing tensions with Iran, particularly, and they hosted Ahmadinejad in the Kingdom in March 2007 and again for the Hajj in December 2007. The Saudis continue to blame a pro-Iranian movement in the Kingdom, Saudi Hezbollah, for the June 25, 1996, Khobar Towers housing complex bombing, which killed 19 U.S. airmen.[29] After restoring relations in December 1991 (after a four-year break), Saudi-Iran ties progressed to high-level contacts during Khatemi's presidency, including Khatemi visits in 1999 and 2002.

- United Arab Emirates (UAE) concerns about Iran's intentions have not completely recovered from the April 1992 Iranian expulsion of UAE security forces from the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, as well as part of Abu Musa from the emirate of Sharjah.) The UAE (particularly the federation capital, Abu Dhabi, which takes a harder line than Dubai, which has a large Persian-speaking community and business ties to Iran) wants to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. The UAE has not pressed the issue vigorously in recent years, although it insists the islands dispute be kept on the agenda of the U.N. Security Council (which it has been since December 1971). The United States, which is concerned about Iran's military control over the islands, supports UAE proposals but takes no formal position on sovereignty. As an indicator of the degree to which the issue is fading, the UAE received Ahmadinejad in May 2007, the highest level Iranian visit to UAE since the 1979 revolution in Iran; during the visit, Ahmadinejad led an anti-U.S. rally of a reported several hundred Iranian-origin residents of Dubai at a soccer stadium there.

- Qatar is wary that Iran might seek to encroach on its large North Field (natural gas), which it shares with Iran (called South Pars on Iran's side) and through which Qatar earns large revenues for natural gas exports. Qatar's fears were heightened on April 26, 2004, when Iran's deputy Oil Minister said that Qatar is probably producing more gas than "her right share" from the field and that Iran "will not allow" its wealth to be used by others. These concerns might have

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[29] Walsh, Elsa. "Annals of Politics: Louis Freeh's Last Case." *The New Yorker*, May 14, 2001. The June 21, 2001, federal grand jury indictments of 14 suspects (13 Saudis and a Lebanese citizen) in the Khobar bombing indicate that Iranian agents may have been involved, but no indictments of any Iranians were announced. In June 2002, Saudi Arabia reportedly sentenced some of the eleven Saudi suspects held there. The 9/11 Commission final report asserts that Al Qaeda might have had some as yet undetermined involvement in the Khobar Towers attacks.

prompted Qatar to invite Ahmadinejad to the December 2007 GCC summit in Qatar.

- In 1981 and again in 1996, Bahrain publicly accused Iran of supporting Bahraini Shiite dissidents (the Islamic Front for the Liberation of Bahrain, Bahrain-Hezbollah, and other Bahraini dissident groups) in efforts to overthrow the ruling Al Khalifa family. Bahrain is about 60% Shiite, but its government is dominated by the Sunni Muslim Al Khalifa family. Bahraini fears that Iran would try to interfere in Bahrain's November 25, 2006, parliamentary elections by providing support to Shiite candidates did not materialize, although the main Shiite opposition coalition won 18 out of the 40 seats of the elected body. Tensions flared in July 2007 when an Iranian newspaper claimed Bahrain is part of Iran — that question was the subject of the 1970 U.N.-run referendum in which Bahrainis opted for independence. Still, Bahrain has sought not to antagonize Iran and has apparently allowed Iran's banks to establish a presence in Bahrain's vibrant banking sector. On March 12, 2008, the Treasury Department sanctioned the Bahrain-based Future Bank under Executive order 13382 that sanctions proliferation entities. Future Bank purportedly is controlled by Bank Melli.

Iranian Policy in Iraq. The U.S. military ousting of Saddam Hussein benefitted Iran strategically,[30] and U.S.-Iran differences in Iraq have widened to the point where Chairman of the Joint Chiefs of Staff Admiral Michael Mullen warned in late April 2008 that there is Defense Department planning for possible military action against Iran's "increasingly lethal and malign influence in Iran" – referring to its assistance to Shiite militias in Iraq. The State Department terrorism report for 2007, released April 30, 2008, reinforced the consistent statements of U.S. officials (including the September 10-11, 2007 and April 8-9, 2008 testimony of U.S. commander in Iraq General David Petraeus) that Iran's Qods Force is providing arms (including highly lethal "explosively forced projectiles," EFPs, that have killed about nearly 200 U.S. soldiers in Iraq), training guidance, and financing to "special groups" of Shiite militias involved in sectarian violence and anti-U.S. activities. In October 2007, Gen. Petraeus told journalists that Iran's Ambassador to Iraq, Hassan Kazemi-Qomi, is himself a member of the Qods Force. The *New York Times* reported on May 5, 2008 that Lebanese Hizballah militants, who are Arabs, are providing some of the training to the Iraq militants at training camps near Tehran. Some U.S. officials now indicate that the United States and Iran are now engaged in a "proxy war" inside Iraq.

General Petraeus' April 2008 testimony was delivered amidst an upsurge of intra-Shiite factional fighting and rocketing of U.S. installations in Baghdad by pro-Sadr militiamen. The fighting wound down with a tense March 30, 2008 ceasefire, but skirmishing continued in Sadr City between U.S. forces and pro-Sadr gunmen, as did rocket attacks on the fortified International Zone where the U.S. Embassy is

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[30] This issue is covered in greater depth in CRS Report RS22323, *Iran's Influence in Iraq*, by Kenneth Katzman.

located. Fighting has continued to diminish as the Sadr faction has reached agreement with the Maliki government not to resist the entry of Iraqi troops into Sadr City. Iran also has signed a number of agreements with Iraq on transportation, energy cooperation, free flow of Shiite pilgrims, border security, intelligence sharing, and other cooperation; several more agreements, including a $1 billion credit line for Iranian exports to Iraq, were signed during Ahmadinejad's March 2-3, 2008 visit to Baghdad; and sets of implementing agreements were signed in mid-April 2008.

A provision of the FY2008 defense authorization bill (P.L. 110-181) requires a report to Congress on Iran's interference in Iraq, but it does not authorize or recommend use of U.S. force to stop these actions. On January 9, 2008, the Treasury Department took action against suspected Iranian and pro-Iranian operatives in Iraq by designating four individuals and one organization as a threat to stability in Iraq under the July 17, 2007 Executive Order 13438, which freezes the assets and bans transactions with named individuals. The named entities, which includes a senior Qods Forces leader, are in the tables on sanctioned entities.

The "Iraq Study Group" (Recommendations 9, 10, and 11) in its December 2006 report, recommended U.S. dialogue with Iran but President Bush initially appeared to reject that idea. The Administration might have later judged that its 2007 "troop surge" and other military moves in the Gulf (extra aircraft carrier deployments) strengthened the U.S. position, and the Administration supported a March 10, 2007, regional conference in Iraq attended by Iran and Syria. Both Iranian and U.S. officials called the conference constructive, but both denied that substantive bilateral talks took place at the margins of the conference. Further regional talks on Iraq ("Expanded Neighbors of Iraq" process) were held in Egypt during May 3-4, 2007, but Secretary of State Rice did not hold substantive bilateral discussions with her counterpart, Iranian Foreign Minister Manuchehr Mottaki. Nor did they directly talk at the November 2, 2007 ministerial on Iraq held in Istanbul or at the April 22, 2008 Expanded Neighbors meeting in Kuwait. Another meeting attended by Iran and the United States, to review the Iraq Compact, will be held in Sweden on May 29, 2008.

The Administration has held potentially more significant bilateral talks with Iran on the Iraq issue. The first such meeting, in Baghdad, was on May 28, 2007; the two sides met at the home of Prime Minister Nuri al-Maliki, who opened the meeting. According to Ambassador Crocker (the Iranian side was represented by the Iranian Ambassador to Iraq), the two sides agreed on broad principles for Iraq's political evolution and stability, but the United States would judge the dialogue by the indications, discussed above, of Iranian cooperation in stopping military supply of Shiite militias. Another round of talks was held on July 24, 2007; it reportedly included mutual accusations but resulted in an agreement to establish a working group to discuss ways to stabilize Iraq. This working group met for the first time on August 6, 2007. Because of signs that Iran had slowed weapons flows into Iraq, another round of talks was tentatively scheduled for December 18, but Iran repeatedly postponed more talks because of differences over the agenda and the level of talks (Iran wants them to be at the ambassador level). Because of the continued U.S. combat against the Mahdi forces in Sadr City that Iran said is causing the deaths of innocent civilians, on May 5, 2008 Iran indefinitely suspended this dialogue. The suspension came several days after an Iraqi parliamentary delegation visited Iran to challenge Iran's aid to the Shiite militants.

Supporting Palestinian Militant Groups. Iran's support for Palestinian militant groups has long concerned U.S. Administrations, particularly since doing so gives Tehran an opportunity to try to obstruct Israeli-Palestinian peace prospects. Ahmadinejad's various statements on Israel were discussed above, although other Iranian leaders have made similar statements in the past. In the 1990s, Khamene'i called Israel a "cancerous tumor" and made other statements suggesting that he seeks Israel's destruction. On April 16, 2008, the deputy commander of Iran's regular army, Mohammad Reza Ashtiani, said that Iran would respond to any military attack from Israel by "eliminating" Israel.

In December 2001, Rafsanjani said that it would take only one Iranian nuclear bomb to destroy Israel, whereas a similar strike against Iran by Israel would have far less impact because Iran's population is large. Iran has sometimes openly incited anti-Israel violence, including hosting conferences of anti-peace process organizations (April 24, 2001, and June 2-3, 2002). During his presidency, Khatemi generally refrained from inflammatory statements against Israel, and he conversed with Israel's president at the 2005 funeral of Pope John Paul II. The Iranian Foreign Ministry, considered a bastion of moderates, has repeatedly stated that Iran's official position is that it would not seek to block any final Israeli-Palestinian settlement but that the peace process is too weighted toward Israel to result in a fair settlement for Palestinians. Ahmadinejad again articulated a hardline position when he openly criticized the participation of Iran's ally, Syria, at the major U.S.-sponsored Middle East peace meeting in Annapolis, Maryland on November 27, 2007. The meeting, in part, represented a U.S. attempt to isolate Iran and other hardline opponents of an Israeli-Palestinian peace agreement.

The State Department report on terrorism for 2007 (mentioned above) again accuses Iran of providing "extensive" funding, weapons, and training to Hamas, Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyr's Brigades, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC). All are named as foreign terrorist organizations (FTO) by the State Department for their use of violence to undermine the Arab-Israeli peace process. Some saw Iran's regional policy further strengthened by Hamas's victory in the January 25, 2006, Palestinian legislative elections, and even more so by Hamas's June 2007 armed takeover of the Gaza Strip, from which it continues to periodically launch rockets on some Israeli towns. The Hamas gains potentially position it to block moves toward peace, and Hamas continues to oppose a two-state solution with Israel and to occasionally fire rockets from Gaza into Israel. However, Hamas activists downplay Iranian influence, asserting that Iran is mostly Shiite, while Hamas members are Sunni Muslims.[31] Hamas was reputed to receive about 10% of its budget in the early 1990s from Iran, although since then Hamas has cultivated funding from wealthy Persian Gulf donors and supporters in Europe and elsewhere.

Lebanese Hezbollah. Iran has maintained a close relationship with Hezbollah since the group was formed in 1982 by Lebanese Shiite clerics who were sympathetic to Iran's Islamic revolution and belonged to the Lebanese Da'wa Party.

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[31] CNN "Late Edition" interview with Hamas co-founder Mahmoud Zahar, January 29, 2006.

Hezbollah was responsible for several acts of anti-U.S. and anti-Israel terrorism in the 1980s and 1990s.[32] Hezbollah's attacks on Israeli forces in southern Lebanon contributed to an Israeli withdrawal in May 2000, but, despite United Nations certification of Israel's withdrawal, Hezbollah maintained military forces along the border. Hezbollah continued to remain armed and outside Lebanese government control, despite U.N. Security Council Resolution 1559 (September 2, 2004) that required its dismantlement. In refusing to disarm, Hezbollah says it was resisting Israeli occupation of small tracts of Lebanese territory (Shib'a Farms).

Neither Israel nor the United States opposed Hezbollah's progressively increased participation in peaceful Lebanese politics. In March 2005, President Bush indicated that the United States might accept Hezbollah as a legitimate political force in Lebanon if it disarms. In the Lebanese parliamentary elections of May — June 2005, Hezbollah expanded its presence in the parliament to 14 out of the 128-seat body, and it gained two cabinet seats. As a matter of policy, the United States does not meet with any Hezbollah members, even those in the parliament or cabinet. Hezbollah is a designated FTO, but that designation bars financial transactions by the group and does not specifically ban meeting with members of the group.

Whether or not Iran instigated Lebanese Hezbollah to provoke the July-August 2006 crisis, Iran has long been its major arms supplier. Hezbollah fired Iranian-supplied rockets on Israel's northern towns during the fighting. As part of a package of aid to Hezbollah said to exceed $100 million per year, reported Iranian shipments to Hezbollah over the past five years have included the "Fajr" (dawn) and Khaybar series of rockets that were fired at the Israeli city of Haifa (30 miles from the border), and over 10,000 Katyusha rockets that were fired at cities within 20 miles of the Lebanese border.[33] Iran also supplied Hezbollah with an unmanned aerial vehicle (UAV), the *Mirsad*, that Hezbollah briefly flew over the Israel-Lebanon border on November 7, 2004, and April 11, 2005; at least three were shot down by Israel during the conflict. On July 14, 2006, Hezbollah apparently hit an Israeli warship with a C-802 sea-skimming missile probably provided by Iran. (See above for information on Iran's acquisition of that weapon from China.) Iran also purportedly provided advice during the conflict; about 50 Revolutionary Guards Qods Force personnel were in Lebanon (down from about 2,000 when Hezbollah was formed, according to a *Washington Post* report of April 13, 2005) when the conflict began; that number might have increased during the conflict to help Hezbollah operate the Iranian-supplied weaponry.

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[32] Hezbollah is believed responsible for the October 1983 bombing of the U.S. Marine barracks in Beirut, as well as attacks on U.S. Embassy Beirut facilities in April 1983 and September 1984, and for the hijacking of TWA Flight 847 in June 1985 in which Navy diver Robert Stetham was killed. Hezbollah is also believed to have committed the March 17, 1992, bombing of Israel's embassy in that city, which killed 29 people. Its last known terrorist attack outside Lebanon was the July 18, 1994, bombing of a Jewish community center in Buenos Aires, which killed 85. On October 31, 2006, Argentine prosecutors asked a federal judge to seek the arrest of Rafsanjani, former Intelligence Minister Ali Fallahian, former Foreign Minister Ali Akbar Velayati, and four other Iranian officials for this attack.

[33] "Israel's Peres Says Iran Arming Hizbollah." Reuters, February 4, 2002.

Even though Hezbollah reduced its overt military presence in southern Lebanon in accordance with the conflict-related U.N. Security Council Resolution 1701 (July 31, 2006), Hezbollah was perceived as a victor in the war for holding out against heavy Israeli air-strikes and some ground action. Since 2006, Hezbollah has sought to leverage its enhanced image to demand an equal say over who becomes president of Lebanon and a share of cabinet seats that would enable it to veto cabinet decisions. Iran has supported Hezbollah's demands and has provided it with leverage by resupplying it with rockets, reportedly increasing its stockpile to 27,000 rockets, more than double what Hezbollah had at the start of the 2006 war.[34] Among the deliveries are 500 Iranian-made "Zelzal" (Earthquake) missiles with a range of 186 miles, enough to reach Tel Aviv from south Lebanon. Iran also has made at least $150 million available for Hezbollah to distribute to Lebanese citizens (mostly Shiite supporters of Hezbollah) whose homes were damaged in the Israeli military campaign.[35]

Perhaps emboldened by the supplies, Hezbollah, perhaps for the first time, used its military wing for internal Lebanese political purposes. In mid May 2008, Hezbollah fighters took over large parts of Beirut in response to an attempt by the U.S. and Saudi-backed Lebanese government to curb Hezbollah's media and commercial operations. The success of its fighters contributed to a Qatar-brokered settlement on May 21, 2008 in which the government rescinded its actions against Hezbollah and agreed to give Hezbollah enough seats in a new cabinet to be able to veto government decisions. Hezbollah agreed to the compromise candidate of Lebanese Army commander Michel Suleiman to become the new president.

Prior to the conflict, in the 109th Congress, two resolutions (H.Res. 101 and S.Res. 82) passed their respective chambers. They urged the EU to classify Hezbollah as a terrorist organization; S.Res. 82 called on Hezbollah to disband its militia as called for in U.N. Security Council Resolution 1559 (September 2, 2004).

Central Asia and the Caspian. Iran's policy in Central Asia has thus far emphasized Iran's rights to Caspian Sea resources, particularly against Azerbaijan. That country's population, like Iran's, is mostly Shiite Muslim, but its leadership is secular. In addition, Azerbaijan is ethnically Turkic, and Iran fears that Azerbaijan nationalists might stoke separatism among Iran's large Azeri Turkic population, which demonstrated some unrest in 2006. These factors could explain why Iran has generally tilted toward Armenia, which is Christian, even though it has been at odds with Azerbaijan over territory and control of ethnic Armenians. 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 that Iran considers its own. The United States called that action provocative, and it is engaged in border security and defense cooperation with Azerbaijan directed against Iran (and Russia). The United States successfully backed construction of the Baku-Tblisi-Ceyhan oil pipeline, intended in part to provide alternatives to Iranian oil. Along with India and Pakistan, Iran has

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[34] Rotella, Sebastian. "In Lebanon, Hezbollah Arms Stockpile Bigger, Deadlier." *Los Angeles Times*, May 4, 2008.

[35] Shadid, Anthony. "Armed With Iran's Millions, Fighters Turn to Rebuilding." *Washington Post*, August 16, 2006.

been given observer status at the Central Asian security grouping called the Shanghai Cooperation Organization (SCO), which contains Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan. In April 2008, Iran applied for full membership in the organization, which opposes a long-term U.S. presence in Central Asia.

Afghanistan.[36] Iran is trying to restore some of its traditional sway in eastern, central, and northern Afghanistan where Persian-speaking Afghans predominate. Iran long opposed the regime of the Taliban in Afghanistan on the grounds that it oppressed Shiite Muslim and other Persian-speaking minorities. Iran nearly launched a military attack against the Taliban in September 1998 after Taliban fighters captured and killed nine Iranian diplomats based in northern Afghanistan, and Iran provided military aid to the Northern Alliance factions. During the major combat phase of the post-September 11 U.S.-led war in Afghanistan, Iran offered search and rescue of any downed service-persons and the trans-shipment to Afghanistan of humanitarian assistance. In March 2002, Iran expelled Gulbuddin Hikmatyar, a pro-Taliban Afghan faction leader. Iran froze Hikmatyar's assets in Iran (January 2005).

After the Taliban's fall, Iran aided minority factions still referred to as the "Northern Alliance" that were prominent in the post-Taliban governing coalition. After 2004, Iran's influence waned somewhat as Northern Alliance figures were marginalized in Afghan politics. To compensate, Iran has funded projects in Afghanistan that total at least $200 million since 2001 (out of a pledged $500 million), mostly in neighboring Herat. Iranian-funded Shiite theological seminaries are being built in Kabul and elsewhere, perhaps an indication of Iran's continuing efforts to support Afghanistan's Shiite minority, and Iran has funded several media outlets in Afghanistan catering to Shiites.

Furthermore, there are indications that Iran will work even with Sunni radical movements if doing so provides Iran with leverage against the United States. The State Department terrorism report for 2007 accuses the Qods Force of supplying various munitions, including 107mm rockets, to Taliban and other militants in Afghanistan. These militants are fighting the United States and NATO forces there. On April 17, 2007, U.S. military personnel in Afghanistan captured a shipment of Iranian weapons that purportedly was bound for Taliban fighters. On June 6, 2007 and again on September 6, 2007, NATO officers said they directly intercepted Iranian shipments of heavy arms, C4 explosives, and advanced roadside bombs (explosively forced projectiles, or EFPs, such as those found in Iraq) to Taliban fighters in Afghanistan. U.S. commander of international forces in Afghanistan Gen. Dan McNeil says the intercepted shipments are large enough that the Iranian government would have to have known about them.

Al Qaeda. Iran is not a natural ally of Al Qaeda, largely because Al Qaeda is an orthodox Sunni Muslim organization. However, Iran might see possibilities for tactical alliance with Al Qaeda, and U.S. officials have said since January 2002 that Iran has not brought to justice senior Al Qaeda operatives (spokesman Sulayman Abu

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[36] See CRS Report RL30588, *Afghanistan: Post-War Governance, Security, and U.S. Policy*, by Kenneth Katzman.

Ghaith, top operative Sayf Al Adl, and Osama bin Laden's son, Saad[37]) who are believed to be in Iran,[38] meaning they might be at relative liberty within Iran. U.S. officials blamed these figures for the May 12, 2003, bombings in Riyadh, Saudi Arabia against four expatriate housing complexes on these operatives, saying they have been able to contact associates outside Iran.[39] In testimony before the Senate Foreign Relations Committee on March 29, 2007, then Undersecretary of State Nicholas Burns accused Iran of violating U.N. Security Council Resolutions 1267 and 1373, which require sharing information on Al Qaeda, as part of the emerging broader U.S. strategy of pressuring Iran militarily, politically, and economically.

Iran asserted on July 23, 2003, that it had "in custody" senior Al Qaeda figures. However, if that is not their status, the explanation could be that hardliners in Iran might want to use Al Qaeda activists as leverage against the United States and its allies. Some say Iran might want to exchange them for a U.S. hand-over of People's Mojahedin activists under U.S. control in Iraq. Possibly attempting to show that it is an adversary and not an ally of Al Qaeda, on July 16, 2005, Iran's Intelligence Minister said that 200 Al Qaeda members are in Iranian jails and that Iran had broken up an Al Qaeda cell planning attacks on Iranian students.[40]

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

Latin America. A growing concern has been Iran's developing relations with countries and leaders in Latin America considered adversaries of the United States, particularly Cuba and Venezuela's Hugo Chavez. Chavez has visited Iran on several occasions, offering Iran additional gasoline during Iran's fuel shortages in 2007 as well as joint oil and gas projects. The two countries have established direct air links. In February 2006, Secretary Rice referred to Venezuela and Cuba as "sidekicks" of Iran because of their votes in the IAEA against referring Iran to the Security Council. On October 30, 2007, Secretary of Homeland Security Michael Chertoff said that Iran's relationship with Venezuela is an emerging threat because it represents a "marriage" of Iran's extremist ideology with "those who have anti-American views." The State Department terrorism report for 2006 said that Cuba maintains "close relationships with other state sponsors of terrorism such as Iran." In October 2007,

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

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

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

[40] "Tehran Pledges to Crack Down on Militants." Associated Press, July 18, 2005.

Uruguayan parliamentary investigators said they blocked an attempt by the government to buy arms from Iran, using a diversion through Venezuela.[41]

U.S. Policy Responses, Options, and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980 (just after the failed U.S. military attempt to rescue the hostages) and the two countries have had only limited official contact since.[42] The United States tilted toward Iraq in the 1980-1988 Iran-Iraq war, including U.S. diplomatic attempts to block conventional arms sales to Iran, providing battlefield intelligence to Iraq[43] and, during 1987-1988, direct skirmishes with Iranian naval elements in the course of U.S. efforts to protect international oil shipments in the Gulf from Iranian attacks. In one battle on April 18, 1988, Iran lost about a quarter of its larger naval ships in a one-day engagement with the U.S. Navy, including one frigate sunk and another badly damaged. Iran strongly disputed the U.S. assertion that the July 3, 1988, U.S. shoot-down of Iran Air Flight 655 by the *U.S.S. Vincennes* over the Persian Gulf (bound for Dubai, UAE) was an accident.

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

Upon taking office in 1993, the Clinton Administration moved to further isolate Iran as part of a strategy of "dual containment" of Iran and Iraq. In 1995 and 1996, the Clinton Administration and Congress added sanctions on Iran in response to growing concerns about Iran's weapons of mass destruction, its support for terrorist groups, and its efforts to subvert the Arab-Israeli peace process. The election of Khatemi in May 1997 precipitated a U.S. shift toward engagement; the Clinton Administration offered Iran official dialogue, with no substantive preconditions. In January 1998, Khatemi publicly agreed to "people-to-people" U.S.-Iran exchanges as part of his push for "dialogue of civilizations, but he ruled out direct talks. In a June 1998 speech, then Secretary of State Albright stepped up the U.S. outreach

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[41] Arostegui, Martin. "Uruguay Caught Buying Iran Arms." *Washington Times*, October 12, 2007.

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

[43] Sciolino, Elaine. *The Outlaw State: Saddam Hussein's Quest for Power and the Gulf Crisis*. New York: John Wiley and Sons, 1991. p. 168.

effort by calling for mutual confidence building measures that could lead to a "road map" for normalization of relations. Encouraged by the reformist victory in Iran's March 2000 parliamentary elections, Secretary Albright, in a March 17, 2000, speech, acknowledged past U.S. meddling in Iran, announcing some minor easing of the U.S. trade ban with Iran, and promised to try to resolve outstanding claims disputes. In September 2000 U.N. "Millennium Summit" meetings, Albright and President Clinton sent a positive signal to Iran by attending Khatemi's speeches.

Overview of Bush Administration Iran Policy

Although some U.S. commentators, including former CENTCOM Commander John Abizaid, believe that the United States "can live with" a nuclear Iran, it is U.S. policy to prevent Iran from obtaining a nuclear weapons capability. The Bush Administration has continued multi-faceted efforts to try to implement that policy, as well as to limit Iran's strategic capabilities more generally, through international diplomacy and sanctions — both international sanctions as well as sanctions enforced by its allies, outside Security Council mandate. At the same time, the Administration has engaged in bilateral diplomacy with Iran on specific priority issues, such as stabilizing Afghanistan and Iraq. These efforts are mostly led by Department of State officials, who believe that this policy course is the only U.S. option that would garner broad international support and affect Iran's behavior. The policy framework is supported by maintenance of a large U.S. conventional military capabilities in the Persian Gulf and through U.S. alliances with Iran's neighbors.

At times, the Administration has considered or, to some extent, pursued harder line options. Some Administration officials, reportedly led by Vice President Cheney, believe that existing measures will not curb the threat posed by Iran and that policy should focus on possible military confrontation with Iran or on U.S. efforts to change Iran's regime.[44] Legislation pending in the 110th Congress, discussed below, indicates congressional support for increasing U.S. sanctions and for steps to compel other countries to adopt stricter sanctions against Iran or to curb their companies' business dealings with Iran. The FY2007 defense authorization law (P.L. 109-364) called for a report by the Administration on all aspects of U.S. policy and objectives on Iran (and required the DNI to prepare a national intelligence estimate on Iran, which was released on December 3, 2007 as discussed above).

Containment and Possible Military Action

A key question in Congress and among U.S. allies and other countries has been whether President Bush might use military action to delay or halt Iran's nuclear program. Others believe that there is a growing chance of U.S. military action against Iran's efforts to arm and train Shiite militias in Iraq, with such action perhaps expanding to include Iran's nuclear or other sites. Although some Members publicly oppose most forms of military action against Iran, others fear that diplomacy and sanctions might not succeed and that Iran's nuclear program should be stopped before Iran possesses a working nuclear device, notwithstanding the consequences. In

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[44] Cooper, Helene and David Sanger. "Strategy on Iran Stirs New Debate at White House." *New York Times*, June 16, 2007.

discussing possible military options against Iran's nuclear facilities, President Bush has repeatedly maintained that "all options are on the table"[45] — a position he has reiterated since the release of the NIE – even though most observers see the NIE as lessening the chance of U.S. conflict with Iran. A U.S. ground invasion to remove Iran's regime has not, at any time, appeared to be under serious consideration; most experts believe U.S. forces are spread too thin to undertake such action, including about 150,000 deployed in Iraq, and that U.S. forces would be greeted with hostility. The Commander of U.S. Central Command, Admiral William Fallon, was considered an opponent of military action against Iran; his resignation in March 2008, which followed the release of a prominent profile on him by *Esquire* magazine (*"The Man Between War and Peace"*), was seen by some as an indication the Administration might be seriously considering such action.

Proponents of U.S. air and missile strikes against suspected nuclear sites argue that military action could set back Iran's nuclear program because there are only a limited number of key targets, and these targets are known to U.S. planners and could be struck, even those that are hardened or buried.[46] On former Air Force planner estimates that up to 400 targets would need to be struck, including at least 75 that would require penetrating munitions, while others discuss potentially a few thousand targets whose destruction would cripple Iran's economic and military infrastructure. It could also be argued that the United States would need to reduce Iran's potential for military or unconventional retaliation by striking not only nuclear facilities but also Iran's conventional military, particularly its small ships and coastal missiles.

Still others argue that there are military options available that do not involve air or missile strikes. Some say that a naval embargo is possible that could pressure Iran into reconsidering its stand on the nuclear issue. Others say that the imposition of a "no-fly zone" over Iran might also serve that purpose. Either action could still be considered acts of war that Iran might challenge, and which could escalate into military hostilities.

Most U.S. allies in Europe, not to mention Russia, China, and some U.S. experts, have expressed opposition to any military action. Some question whether the United States is aware of or militarily able to reach all relevant sites; other opponents believe any benefits would be minor, or only temporary, and that the costs of a strike are too high. Some believe that a U.S. strike would cause the Iranian public to rally around Iran's regime, setting back U.S. efforts to promote change within Iran. On the other hand, regarding international support, in August 2007 French President Nicolas Sarkozy indicated that such a strike might be undertaken by the United States if Iran does not curb its nuclear program, although he said the effects of such a strike would be a "disaster." Other members of his government made similar comments in September 2007, possibly in an effort to provoke accelerated action on stricter international sanctions.

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[45] Fletcher, Michael and Keith Richburg. "Bush Tries to Allay E.U. Worry Over Iran." *Washington Post*, February 23, 2005.

[46] For an extended discussion of U.S. air strike options on Iran, see Rogers, Paul. *Iran: Consequences Of a War*. Oxford Research Group, February 2006.

Expressing particular fear that Iran might achieve a nuclear weapons capability, Israeli officials have repeatedly refused to rule out the possibility that Israel might strike Iran's nuclear infrastructure. Discussion of this possibility increased after the NIE was released, because Israel fears it has greatly dampened the international appetite to forcefully curb Iran's nuclear abilities. However, several experts doubt that Israel has the capability to make such action effective.

Iranian Retaliatory Scenarios. Some officials and experts warn that a U.S. military strike on Iran could provoke unconventional retaliation, using the equipment discussed in the section on "conventional military capabilities," that could be difficult to counter. At the very least, such conflict is likely to raise world oil prices significantly out of fear of an extended supply disruption. Others say such action would cause Iran to withdraw from the NPT and refuse any IAEA inspections. Other possibilities include firing missiles at Israel, or directing Lebanese Hezbollah or Hamas to fire rockets at Israel.

Iran has acquired a structure and doctrine for unconventional warfare that partly compensates for its conventional weakness. Former CENTCOM commander Gen. John Abizaid said in March 2006 that the Revolutionary Guard Navy, through its basing and force structure, is designed to give Iran a capability to "internationalize" a crisis in the Strait of Hormuz. In his confirmation hearings on January 30, 2007, Abizaid's replacement, Admiral William Fallon, said that "Based on my read of their military hardware acquisitions and development of tactics ... [the Iranians] are posturing themselves with the capability to attempt to deny us the ability to operate in [the Strait of Hormuz]." During a visit to the Gulf, Vice President Cheney warned Iran on May 11, 2007, not to try to restrict sea traffic, saying "[The United States] will keep the sea lanes open."

Although many experts believe that U.S. forces could quickly reopen the Strait if Iran closed it, Iran has tried to demonstrate that it is a capable force in the Gulf. It has conducted at least five major military exercises since August 2006, including exercises simultaneous with U.S. exercises in the Gulf in March 2007. In early 2007, Iranian ships were widening their patrols, coming ever closer to key Iraqi oil platforms in the Gulf. Several weeks after that report, Iran seized 15 British sailors that Iran said were patrolling in Iran's waters, although Britain says they were in Iraqi waters performing coalition-related searches. They were held until April 5, 2007. On January 6, 2008, the U.S. Navy reported a confrontation in which five IRGC Navy small boats approached three U.S. Navy ships to the point where they manned battle stations. The IRGC boats veered off before any shots were fired, but the Bush Administration called it a "provocative act" and filed a formal protest with Tehran, which claims the United States overblew the incident. The IRGC could have been testing U.S. rules of engagement following months of U.S. criticism and the proliferation designations of the IRGC and its subunits. Another incident occurred in April 2008 when a ship under U.S. contract fired a shot to warn off Iranian boats in the Gulf.

If there were a conflict in the Gulf, some fear that Iran might try to use suicide boat attacks or to lay mines in the Strait. In April 2006, Iran conducted naval maneuvers, including test firings of what Iran claims are underwater torpedos that can avoid detection, presumably for use against U.S. ships in the Gulf, and a surface-

to-sea radar-evading missile launched from helicopters or combat aircraft. U.S. military officials said the claims might be an exaggeration. The Gulf states fear that Iran will fire coastal-based cruise missiles at their oil loading or other installations across the Gulf, as happened during the later stages of the Iran-Iraq war.

Containment and the Gulf Security Dialogue. Whether or not a strike on Iran is planned, the Administration believes that U.S. conventional military capabilities and regional alliances strengthen overall efforts to contain Iran strategically. An assertive military containment component of policy was signaled in the January 10, 2007, Iraq "troop surge" statement by President Bush, in which he confirmed in that speech that the United States was sending a second U.S. aircraft carrier group into the Gulf,[47] and he announced the extended deployment of Patriot anti-missile batteries in the Gulf, reportedly in Kuwait and Qatar, as well as increased intelligence sharing with the Gulf states. Secretary of Defense Gates said at the time that he saw the U.S. buildup as a means of building leverage against Iran that could be useful in bolstering U.S. diplomacy. He and other top U.S. military leaders have repeatedly denied that the military moves are a prelude or part of planning for any U.S. military attack on Iran. Nonetheless, some experts express concern about potential U.S. action against Iran at times, such as in late April 2007, when the United States announces new aircraft carrier task forces in the Gulf. The April 2008 deployment of a second carrier group to the Gulf was, according to Secretary Gates, a "reminder" to Iran of U.S. capabilities in the Gulf.

The U.S. Gulf deployments build on a containment strategy inaugurated in mid-2006 by the State Department, primarily the Bureau of Political-Military Affairs ("Pol-Mil"). The State Department effort represented an effort to revive some of the U.S.-Gulf state defense cooperation that had begun during the Clinton Administration but had since languished as the United States focused on the post-September 11 wars in Afghanistan and Iraq. In a December 8, 2007 speech in Bahrain, Secretary Gates said the "Gulf Security Dialogue," which is now in its third round of talks, has six key pillars, some of which go beyond Iran containment:

- Defense cooperation (with the Gulf states).
- Developing a shared assessment and agenda on Iraq.
- Regional stability, especially with respect to Iran.
- Energy infrastructure security.
- Counter-proliferation
- Counter-terrorism

One goal of the initiative is on boosting Gulf state capabilities fueled speculation about major new weapons sales to the GCC states. The emphasis of the sales is to improve Gulf state missile defense capabilities, for example by sales of the upgraded Patriot Advanced Capability-3 (PAC-3),[48] as well as to improve border and maritime security equipment through sales of combat littoral ships, radar systems,

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[47] Shanker, Thom. "U.S. and Britain to Add Ships to Persian Gulf in Signal to Iran," *New York Times*, December 21, 2006.

[48] "New Persian Gulf Security Effort Expected to Fuel Arms Sales in FY-07." *Inside the Pentagon*, November 9, 2006.

and communications gear. The initial sales, including PAC-3 related sales to UAE and Kuwait, and Joint Direct Attack Munitions (JDAMs) to Saudi Arabia and UAE were notified to Congress in December 2007 and January 2008.

Presidential Authorities and Legislation. A decision to take military action might raise the question of presidential authorities and congressional consultation, and some in Congress have begun to express concern that the Administration might be preparing for military action against Iran, despite Administration denials to that effect. In the 109th Congress, H.Con.Res. 391, introduced on April 26, 2006, called on the President to not initiate military action against Iran without first obtaining authorization from Congress. A similar bill, H.Con.Res. 33, has been introduced in the 110th Congress. Other bills requiring specific congressional authorization for use of force against Iran (or prohibiting U.S. funds for that purpose) include S.Res. 356, H.J.Res. 14, H.R. 3119, S.Con.Res. 13, S. 759, and H.R. 770. A provision that sought to bar the Administration from taking military action against Iran without congressional authorization was taken out of an early draft of an FY2007 supplemental appropriation (H.R. 1591) to fund additional costs for Iraq and Afghanistan combat (which was vetoed on May 1, 2007). Other provisions, including requiring briefings to Congress about military contingency planning related to Iran's nuclear program, is in the House-passed FY2009 defense authorization bill (H.R. 5658).

Regime Change

A major feature of policy for part of 2006 — promotion of "regime change" — has appeared to since recede. Senior U.S. officials now say that the democracy promotion programs discussed below are intended to promote political evolution in Iran and lead to changes in regime behavior, not outright replacement. Still, several high-ranking U.S. officials, purportedly including Vice President Cheney, believe that only an outright change of regime would permanently reduce the threat posed by Iran. One account said that President Bush had authorized some covert operations to destabilize the regime.[49] There has been some support in the United States for regime change since the 1979 Islamic revolution; the United States provided some funding to anti-regime groups, mainly pro-monarchists, during the 1980s.[50] The Administration's attraction to this option became apparent after the September 11, 2001, attacks, when President Bush's described Iran as part of an "axis of evil" in his January 2002 State of the Union message. President Bush's second inaugural address (January 20, 2005) and his State of the Union messages of February 2, 2005, and January 31, 2006, suggested a clear preference for a change of regime by stating, in

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[49] Ross, Brian and Richard Esposito. Bush Authorizes New Covert Action Against Iran. [http://blogs.abcnews.com/theblotter/2007/05/bush_authorizes.html].

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

the latter speech, that "... our nation hopes one day to be the closest of friends with a free and democratic Iran." Indications of affinity for this option include increased public criticism of the regime's human rights record — for example supporting General Assembly resolutions condemning Iran's human rights record — as well as the funding of Iranian pro-democracy activists.

The State Department is the implementer of these programs. In 2006, the Administration began increasing the presence of Persian-speaking U.S. diplomats in U.S. diplomatic missions around Iran, in part to help identify and facilitate Iranian participate in U.S. democracy-promotion programs. The Iran unit at the U.S. consulate in Dubai has been enlarged significantly, and new "Iran-watcher" positions have been added to U.S. diplomatic facilities in Baku, Azerbaijan; Istanbul, Turkey; Frankfurt, Germany; London; and Ashkabad, Turkmenistan, all of which have large expatriate Iranian populations and/or proximity to Iran.[51] An enlarged (six-person) "Office of Iran Affairs" has been formed at State Department, and it is reportedly engaging in contacts with U.S.-based exile groups such as those discussed earlier.[52] The State Department has used funds provided in recent appropriations to support pro-democracy programs run by 26 organizations based in the United States in Europe. The Department refuses to name grantees for security reasons. Part of the program is to promote people-to-people exchanges which might help alter the image of the United States in Iran; to date the State Department has sponsored exchanges with about 150 Iranian academics, professionals, athletes, artists, and medical professionals. The Department has also formed a Persian-language website. Iran asserts that funding democracy promotion represents a violation of the 1981 "Algiers Accords" that settled the Iran hostage crisis and provide for non-interference in each others' internal affairs.

Funding. As shown below, prior to FY2008, a total of $42.2 million has been appropriated for Iran democracy promotion ($15.2 million through DRL and $27 million through the Bureau of Near Eastern Affairs). Of that, as of October 2007, $35.65 million has been obligated, and $9.109 million disbursed.

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[51] Stockman, Farah. "'Long Struggle' With Iran Seen Ahead." *Boston Globe*, March 9, 2006.

[52] Weisman, Steven. "U.S. Program Is Directed At Altering Iran's Politics." *New York Times*, April 15, 2006.

Table 8. Iran Democracy Promotion Funding

FY2004	Foreign operations appropriation (P.L. 108-199) earmarked $1.5 million for "educational, humanitarian and non-governmental organizations and individuals inside Iran to support the advancement of democracy and human rights in Iran." The State Department Bureau of Democracy and Labor (DRL)[53] gave $1 million to the IHDC organization, mentioned earlier; $500,000 to National Endowment for Democracy (NED).
FY2005	$3 million from FY2005 foreign aid appropriation (P.L. 108-447) for democracy promotion. Priority areas were political party development, media development, labor rights, civil society promotion, and human rights.
FY2006 regular	$11.15 for democracy promotion from regular FY2006 foreign aid appropriation (P.L. 109-102). $4.15 million administered by DRL and $7 million for the Bureau of Near Eastern Affairs.
FY2006 supp.	Total of $66.1 million (of $75 million requested) from FY2006 supplemental (P.L. 109-234): $20 million for democracy programs ($5 million above request); $5 million for public diplomacy directed at the Iranian population (amount requested); $5 million for cultural exchanges (amount requested); and $36.1 million for Voice of America-TV and "Radio *Farda*" broadcasting ($13.9 million less than request). Of all FY2006 funds, the State Department said on June 4, 2007 that $16.05 million was obligated for democracy promotion programs, as was $1.77 million for public diplomacy and $2.22 million for cultural exchanges (bringing Iranian professionals and language teachers to the United States). Broadcasting funds provided through the Broadcasting Board of Governors; began under Radio Free Europe/Radio Liberty (RFE/RL), in partnership with the VOA, in October 1998.[54] *Farda* ("Tomorrow" in Farsi) received $14.7 million of FY2006 funds; now broadcasts 24 hours/day. VOA Persian services (radio and TV) combined cost about $10 million per year. VOA-TV began on July 3, 2003, and now is broadcasting to Iran 12 hours a day.
FY2007	FY2007 continuing resolution provided $6.55 million for Iran (and Syria) to be administered through DRL. No funds were requested.
FY2008	$60 million (of $75 million requested) is contained in Consolidated Appropriation (H.R. 2764, P.L. 110-161), of which $21.8 million is ESF for pro-democracy programs, including non-violent efforts to oppose Iran's meddling in other countries. Appropriation also fully funds additional $33.6 million requested for Iran broadcasting: $20 million for VOA Persian service; and $8.1 million for Radio Farda; and $5.5 million for exchanges with Iran.
FY2009	Request is for $65 million in ESF "to support the aspirations of the Iranian people for a democratic and open society by promoting civil society, civic participation, media freedom, and freedom of information."

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

[54] The service began when Congress funded it at $4 million in the FY1998 Commerce/State/Justice appropriation (P.L. 105-119). It was to be called Radio Free Iran but was never formally given that name by RFE/RL.

Many question the prospects of U.S.-led Iran regime change through democracy promotion or other means, short of all-out-U.S. military invasion, because of the weakness of opposition groups. 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. The regime purportedly also conducts extensive regime surveillance of democracy activists or other internal dissidents. Iran has been arresting civil society activists by alleging they are accepting the U.S. democracy promotion funds, while others have refused to participate in U.S.-funded programs, fearing arrest. The highest profile such arrest came in May 2007, when Iranian-American scholar Haleh Esfandiari, of the Woodrow Wilson Center in Washington, DC, who had been under house arrest and unable to leave Iran since late December 2006, was sent to Evin prison. Three other Iranian Americans were arrested and accused by the Intelligence Ministry of actions contrary to national security in May 2007: U.S. funded broadcast (Radio Farda) journalist Parnaz Azima (who was not in jail but was not allowed to leave Iran); Kian Tajbacksh of the Open Society Institute funded by George Soros; and businessman and peace activist Ali Shakeri. All were released as of September 2007. Others argue that reformist groups such as students, women, labor leaders, intellectuals, and others might be able to galvanize regime change unexpectedly despite the repression; all of these groups have conducted various small protests during the past few years. Several congressional resolutions called on Iran to release Esfandiari (S.Res.214, agreed to by the Senate on May 24; H.Res. 430, passed by the House on June 5; and S.Res. 199).

Iran Freedom Support Act (P.L. 109-293). Legislation in the 109th Congress exemplified the preference of some Members for regime change in Iran by authorizing funding for democracy promotion, among other provisions. In the 109th Congress, H.R. 282 passed the House on April 26, 2006, by a vote of 397-21. A companion, S. 333, was introduced in the Senate. The Administration supported the democracy-promotion sections of these bills, while opposing provisions on economic sanctions, as discussed below in the section on the Iran Sanctions Act. Major provisions of the bills were included in H.R. 6198, which was introduced on September 27, 2006, passed by both chambers, and signed September 30, 2006 (P.L. 109-293). Entitled the Iran Freedom Support Act, it authorizes funds (no specific dollar amount) for Iran democracy promotion and modifies the Iran Sanctions Act.

Engagement

Many believe that the NIE findings largely preclude hard line options against Iran, and that the United States should instead seek a comprehensive direct dialogue with Iran without preconditions. The Bush Administration has directly engaged Iran on specific issues (Afghanistan and Iraq), viewing such dialogue as helpful to the stabilization missions in those countries, but has refused an unconditional dialogue on all issues. The United States had a dialogue with Iran on Iraq and Afghanistan from late 2001 until May 2003, when the United States broke off the talks following the May 12, 2003, terrorist bombing in Riyadh. At that time, the United States and Iran publicly acknowledged that they were conducting direct talks in Geneva on those

two issues,[55] the first confirmed direct dialogue between the two countries since the 1979 revolution. The United States briefly resumed some contacts with Iran in December 2003 to coordinate U.S. aid to victims of the December 2003 earthquake in Bam, Iran, including a reported offer to send a high-level delegation to Iran. However, Iran rebuffed that offer. The recent meetings on Iraq were discussed above.

Regarding a broader dialogue with Iran on nuclear and other issues, since 2006 the Administration has maintained it would join multilateral nuclear talks, or even potentially engage in direct bilateral talks, if Iran first suspends uranium enrichment. Some believe the Administration position was based on a view that offering to participate in a nuclear dialogue with Iran would later increase international support for sanctions and other pressure mechanisms by demonstrating the willingness of the Administration to resolve the issue diplomatically. Others believe that this precondition lessens the likelihood of a positive response by Iran and should be dropped. In a related form of the option of dropping that precondition, former senior U.S. diplomat Thomas Pickering and other experts said in April 2008 that U.S. and Iranian former officials and academics have been meeting to discuss formulas under which Iran might continue to enriched uranium to non bomb-grade levels under monitoring to be determined.

As part of the U.S. declared openness to talk with Iran if it complies on nuclear issues, the Administration indicated that it considers Iran a great nation and respects its history; such themes have been prominent in speeches by President Bush such as at the Merchant Marine Academy on June 19, 2006, and his September 18, 2006, speech to the U.N. General Assembly. An amendment by Senator Biden (adopted June 2006) to the FY2007 defense authorization bill (P.L. 109-364) supported the Administration's offer to join nuclear talks with Iran.

"Grand Bargain Concept". U.S. officials have not, to date, offered an unconditional, direct U.S.-Iran bilateral dialogue on *all* issues of U.S. concern: nuclear issues, Iranian support of militant movements, involvement in Iraq, and related issues. Some view this as a "missed opportunity," saying that U.S. officials rebuffed a reported overture from Iran just before the May 12, 2003, Riyadh bombing to negotiate all outstanding U.S.-Iran issues as part of a so-called "grand bargain" that has been discussed by outside experts and reported in various press articles. The *Washington Post* reported on February 14, 2007 ("*2003 Memo Says Iranian Leaders Backed Talks*"), that the Swiss Ambassador to Iran in 2003, Tim Guldimann, had informed U.S. officials of a comprehensive Iranian proposal for talks with the United States. However, State Department officials and some European diplomats based in Tehran at that time question whether that proposal represented an authoritative communication from the Iranian government. Some believe that the NIE gives the United States another opportunity to explore the grand bargain possibility, in part because alternatives to pressure Iran have become more difficult. Others might argue that the reported offer was unrealistic because an agreement would have required Iran to abandon key tenets of its Islamic revolution, including support for Hezbollah and acceptance of Israel's right to exist. On January 3, 2008, Supreme

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

Leader Khamene'i said he would support resumed relations with the United States at the right time and under the right circumstances, but not at the present because the United States would use relations to insert spies into Iran. Secretary of State Rice said in late January 2008 that the United States does not consider Iran a "permanent enemy."

Further International and Multilateral Sanctions

If Iran does not accept new offers of incentives, the Administration is likely to return to emphasizing consideration of new international and multilateral sanctions. The following represent sanctions that the Security Council might impose in future U.N. resolutions, along with some discussion of key positions expressed by some Security Council or other nations on those ideas. Administration officials say these or other additional sanctions might also be considered by a "coalition" of countries, outside Security Council authorization — a possibility that reportedly was discussed at a meeting of Security Council permanent members at the U.S. State Department on September 21, 2007.[56] On the other hand, even among U.S. allies, Germany opposed sanctions outside Council action on the grounds that doing so would undermine the Security Council process. [57] Among the further U.N. or multilateral sanctions widely discussed are the following:

- *Mandating Reductions in Diplomatic Exchanges with Iran or Prohibiting Travel by Iranian Officials.* As noted above, Resolution 1803 imposes, rather than calls for, a ban on travel by some named Iranian officials. A further option is to limit sports or cultural exchanges with Iran, such as Iran's participation in the World Cup soccer tournament or the Olympics. However, many experts oppose using sporting events to accomplish political goals.

- *Banning or Inspecting International Flights to and from Iran.* Bans on flights to and from Libya were imposed on that country in response to the finding that its agents were responsible for the December 21, 1988, bombing of Pan Am 103 (now lifted). There are no indications that a passenger aircraft flight ban is under consideration at the U.N. Security Council, although, as noted above, inspections of Iranian international cargo flights and shipping is authorized in Resolution 1803.

- *A Ban on Exports to Iran of Refined Oil Products or of Other Products.* Even before the NIE was released, members of the U.N. Security Council did not appear ready to include this sanction in a new Security Council resolution. Some countries that supply gasoline to Iran, such as those listed in the economic table above (see **Table 3**), might oppose this sanction. A gas exports ban would

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[56] Wright, Robin. "U.S., Europeans Planning Own Iran Sanctions." *Washington Post*, September 22, 2007.

[57] Berlin Says U.S. and France Guilty of Hypocrisy. Spiegel Online, September 24, 2007. [http://www.spiegel.de/international/world/0,1518,507443,00.html]

almost certainly hurt Iran's economy because Iran does not refine enough gasoline to meet demand and must import gasoline, although some experts believe Iran would be able to circumvent this sanction by offering premium prices to suppliers. A bill, H.R. 2880, would apply the Iran Sanctions Act (see below) to entities that sell gasoline to Iran.

- *Financial and Trade Sanctions, Such as a Freeze on Iran's Financial Assets Abroad or Limiting Lending to Iran by Banks or International Financial Institutions.* Resolution 1737 and 1747 freeze the assets only of specific Iranian entities and individuals named in those resolutions. A future resolution could mandate reduction of official credit guarantees, and British Prime Minister Brown indicated British support for this idea on November 12, 2007. In response to U.S. urging, U.S. allies and their banks are already reducing export credit guarantees and financing for Iran, as discussed below. As noted, Resolution 1803 authorizes — but does not require — countries to curtail banking relationships with Iran's Bank Melli and Bank Saderat.

- *Banning Worldwide Investment in Iran's Energy Sector.* This option would represent an internationalization of the U.S. "Iran Sanctions Act," which is discussed below and extensively in CRS Report RS20871. In his November 12, 2007 comments, Brown expressed support for a worldwide financing of energy projects in Iran as a means of cutting off energy development in Iran, although others believe that taking this step could cause worldwide energy prices to rise further.

- *Imposing a Worldwide Ban on Sales of Arms to Iran.* Resolution 1747 called for — but did not require — U.N. member states to exercise restraint in selling arms to Iran. A future resolution might mandate such an arms sales ban. Another option under discussion is to eliminate the Resolution 1737 exemption from sanctions for the Bushehr nuclear reactor project, although Russian support for such a move is in doubt.

- *Imposing an International Ban on Purchases of Iranian Oil or Other Trade.* This is widely considered the most sweeping of sanctions that might be imposed, and would be unlikely to be considered in the Security Council unless Iran was found actively developing an actual nuclear weapon. Virtually all U.S. allies conduct extensive trade with Iran, and would oppose sanctions on trade in civilian goods with Iran. A ban on oil purchases from Iran is unlikely to be imposed because world oil prices remain over $120 per barrel and could go far higher if such sanctions were imposed on Iran.

European/Japanese/Other Foreign Country Policy on Sanctions and Trade Agreements. Although the United States and its allies are now mostly aligned on Iran policy, some philosophical differences remain. Most U.S. allies still

favor engagement and incentives — not just economic or political punishments — as tools to change Iran's behavior. During 1992-1997, when the United States was tightening its own sanctions against Iran, the European Union (EU) countries maintained a policy of "critical dialogue" with Iran, and the EU and Japan refused to join the 1995 U.S. trade and investment ban on Iran. The European dialogue with Iran was suspended in April 1997 in response to the German terrorism trial ("Mykonos trial") that found high-level Iranian involvement in assassinating Iranian dissidents in Germany, but resumed in May 1998 after Khatemi became president.

With Iran still defiant on nuclear issues, the European countries and Japan are no longer negotiating new trade agreements and other economic interaction with Iran. In December 2002, as part of its engagement strategy, the EU (European Commission) first began negotiations with Iran on a "Trade and Cooperation Agreement" (TCA) that would lower the tariffs or increase quotas for Iranian exports to the EU countries. However, revelations about Iran's undeclared nuclear activity caused a suspension of the talks in July 2003. The TCA talks resumed in January 2005 in concert with the "Paris Agreement," but were suspended after the breakdown of the Paris Agreement. During the active period of such talks, there were working group discussions focused not only on the TCA terms and proliferation issues but also on Iran's human rights record, Iran's efforts to derail the Middle East peace process, Iranian-sponsored terrorism, counter-narcotics, refugees, migration issues, and the Iranian opposition PMOI. In addition, several EU countries report that civilian trade with Iran is down because Iran's defiance on the nuclear issue is introducing more perceived risk to trading with Iran.

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

Foreign Banking and Financing Limitations. U.S. officials, including Undersecretary of State Burns and Undersecretary of the Treasury Stuart Levey, say that they are having substantial success in separate unilateral efforts ("targeted financial measures") to persuade European governments and companies to stop financing commerce with Iran. Then Under Secretary of State Burns and Under Secretary of the Treasury Levey testified on March 21, 2007, that "many leading foreign banks ... [have concluded] that they simply did not wish to be a banker for a regime that deliberately conceals the nature of its illicit business." Treasury and State Departments officials, as recently as April 17, 2008 testimony before the House Foreign Affairs Committee, say they have persuaded at least 40 banks not to provide financing for exports to Iran or to process dollar transactions for Iranian banks. Among those that have pulled out of Iran are UBS and Credit Suisse (Switzerland), HSBC (Britain), Germany's Commerzbank A.G and Deutsche Bank AG.

In an attempt to prevent Iran's use of non-European banks to circumvent these pullouts, U.S. pressure has reportedly convinced Kuwaiti banks to stop transactions with Iranian accounts,[58] and South Korean banks are considering doing the same. The restrictions on financing are, according to Iranian and outside observers, making it more difficult to fund energy industry and other projects in Iran, and particularly hurting small Iranian businesses who have to pay new fees and premiums in order to collect on accounts earned by outside trade. The results are due also to U.S. presentations of the financial risk posed by providing credit to Iran. Thus far, the Treasury Department has not gone so far as to sanction any bank for dealing with Iran by designating it a "money laundering entity" under Section 311 of the USA Patriot Act, although some say that step has been threatened at times. The Organization for Economic Cooperation and Development (OECD) in 2006 raised the financial risk rating for Iran.

Some of these moves by European banks have come about by U.S. pressure. In 2004, the Treasury Department fined UBS $100 million for the unauthorized movement of U.S. dollars to Iran and other sanctioned countries, and on December 20, 2005, the Treasury Department fined Dutch bank ABN Amro $80 million for failing to fully report the processing of financial transactions involving Iran's Bank Melli (and another bank partially owned by Libya). On September 8, 2006, the Treasury Department said it would bar U.S. banks from handling any indirect transactions ("U-turn transactions, meaning transactions with non-Iranian foreign banks that are handling transactions on behalf of an Iranian bank) with Iran's Bank Saderat (see above), which the Administration accuses of providing funds to Hezbollah.[59] Bank Sepah is subject to asset freezes and transactions limitations as a result of their naming as sanctionable entities under Resolution 1737 and 1747. The Treasury Department reportedly is considering similar sanctions against Bank Markazi (Central Bank) which, according to a February 25, 2008 *Wall Street Journal* story, is helping other Iranian banks circumvent the U.S. and U.N. banking pressure.

As another sign of success for the U.S. campaign, some EU countries say they have reduced credit guarantee exposure to Iran since Resolution 1737 was passed in December 2006. The table at the beginning of this paper lists some countries that have dramatically cut back credit guarantees for Iran. Previously, the EU countries and their banks have maintained that financing for purely civilian goods is not banned by any U.N. resolution and that exporters of such goods should not be penalized. In the 1990s, European and Japanese creditors — over U.S. objections — 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. Iran's improved external debt led most European export credit agencies to restore insurance cover for exports to Iran. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling $500 million in bonds to European banks.

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[58] Mufson, Steven and Robin Wright. "Iran Adapts to Economic Pressure." *Washington Post,* October 29, 2007.

[59] Kessler, Glenn. "U.S. Moves to Isolate Iranian Banks." *Washington Post*, September 9, 2006.

World Bank Loans. The EU and Japan appear to have made new international lending to Iran contingent on Iran's response to international nuclear demands. This represents a narrowing of past differences between the United States and its allies on this issue. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of $460 million for electricity, health, and irrigation projects, but the loans were approved. To block that lending, the FY1994-FY1996 foreign aid appropriations (P.L. 103-87, P.L. 103-306, and P.L. 104-107) cut the amount appropriated for the U.S. contribution to the Bank by the amount of those loans. The legislation contributed to a temporary halt in new Bank lending to Iran. During 1999-2005, Iran's moderating image had led the World Bank to consider new loans over U.S. opposition. In May 2000, the United States' allies outvoted the United States to approve $232 million in loans for health and sewage projects. During April 2003-May 2005, a total of $725 million in loans were approved for environmental management, housing reform, water and sanitation projects, and land management projects, in addition to $400 million in loans for earthquake relief. (A provision of H.R. 1400 and S. 970, introduced in the 110th Congress, would impose a new restriction on U.S. contributions to the World Bank in proportion to the Bank's lending to Iran.)

U.S. Sanctions

Any international or multilateral sanctions would add to the wide range of U.S. sanctions in place since the November 4, 1979, seizure of the U.S. hostages in Tehran.[60] Some experts believe that, even before U.S. allies have begun to impose some sanctions on Iran, U.S. sanctions alone were slowing Iran's economy, forcing it to curb spending on weapons purchases.[61] However, a report on U.S. sanctions by the Government Accountability Office (GAO), published December 2007 (GAO-08-58: Iran Sanctions: Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed) found that the extent of the impact on Iran is "difficult to determine." The GAO studied said that, despite the U.S. sanctions, Iran's global trade has continued to expand from 1987 (when sanctions first began to be imposed) to 2006, and that Iran had signed $20 billion in energy investment deals with foreign firms, although these agreements might not ultimately be carried out, as discussed below.

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

- The terrorism list designation restricts sales of U.S. dual use items (Export Administration Act, as continued by executive order), and, under other laws, bans direct U.S. financial assistance (Foreign Assistance Act, FAA) and arms sales (Arms Export Control Act),

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

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

and requires the United States to vote to oppose multilateral lending to the designated countries (Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132). Waivers are provided under these laws, but successive foreign aid appropriations laws since the late 1980s ban direct assistance to Iran (loans, credits, insurance, Eximbank credits) without providing for a waiver.

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

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

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

Proliferation Sanctions. Iran is prevented from receiving advanced technology from the United States under relevant and Iran-specific anti-proliferation laws.[62] The Iran-Iraq Arms Nonproliferation Act (P.L. 102-484) requires denial of license applications for exports to Iran of dual use items, and imposes sanctions on foreign countries that transfer to Iran "destabilizing numbers and types of conventional weapons," as well as WMD technology. The Iran Nonproliferation Act (P.L. 106-178, now called the Iran-Syria Non-Proliferation Act, or ISNA) authorizes sanctions on foreign entities that assist Iran's WMD programs. It bans U.S. extraordinary payments to the Russian Aviation and Space Agency in connection with the international space station unless the President can certify that the agency or entities under its control had not transferred any WMD or missile technology to Iran within the year prior. [63]

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[62] Such laws include the Atomic Energy Act of 1954 and the Energy Policy Act of 2005 (P.L. 109-58).

[63] The provision contains certain exceptions to ensure the safety of astronauts, but it nonetheless threatened to limit U.S. access to the international space station after April 2006, when Russia started charging the United States for transportation on its Soyuz spacecraft. Legislation in the 109th Congress (S. 1713, P.L. 109-112) amended the provision

(continued...)

Reflecting a Bush Administration decision to impose sanctions for violations, the Bush Administration has sanctioned numerous entities as discussed below. These entities were sanctioned under the INA, the Iran-Iraq Arms Non-Proliferation Act of 1992 (P.L. 102-484), and another law, the Chemical and Biological Warfare Elimination Act of 1991, for sales to Iran. Those entities are listed in **Table 8**.

As with previous years' appropriations, the FY2007 foreign aid appropriation (H.R. 5522, P.L. 110-5) punishes the Russian Federation for assisting Iran by withholding 60% of any U.S. assistance to the Russian Federation unless it terminates technical assistance to Iran's nuclear and ballistic missiles programs. A similar provision is contained in the FY2008 foreign aid bill (H.R. 2764, included in the omnibus appropriation). A provision of H.R. 1400 and of S. 970 would restrict nuclear cooperation with Russia, under the Atomic Energy Act of 1954, if it continues to assist Iran's nuclear or advanced conventional weapons capabilities. (The two bills refer to different sections of the Atomic Energy Act, however.)

Executive Order 13382, allows the President to block the assets of proliferators of weapons of mass destruction (WMD) and their supporters under the authority granted by the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 et seq.), the National Emergencies Act (50 U.S.C. 1601 et seq.), and Section 301 of Title 3, United States Code. Iranian entities designated under E.O. 13382 are listed in Table 9 at the end of this paper. As noted above, the Revolutionary Guard, several Guard officers, several Iranian banks, and other entities were designated under this Order on October 21, 2007.

Counter-Narcotics. In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. This exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. According to several governments, over the past few years Iran has augmented security on its border with Afghanistan in part to prevent the flow of narcotics from that country into Iran. Britain has sold Iran some night vision equipment and body armor for the counter-narcotics fight. Iran also reportedly is supporting the international counter-narcotics effort in Afghanistan by providing aid to Afghan farmers to grow crops other than poppy.

U.S. Trade Ban/Subsidiaries. On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran.[64] 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

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[63] (...continued)
in order to facilitate continued U.S. access and extended INA sanctions provisions to Syria.

[64] 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.

since 1995, the U.S. Administration has renewed a declaration of a state of emergency that triggered the investment ban. Some modifications to the trade ban since 1999 account for the trade that does exist between the United States and Iran. (H.R. 1400 and S. 970, see below, would reimpose many of the restrictions).

The following conditions and modifications, as administered by the Office of Foreign Assets Control (OFAC) of the Treasury Department, apply:

- Some goods related to the safe operation of civilian aircraft may be licensed for export to Iran, and as recently as September 2006, the Bush Administration, in the interests of safe operations of civilian aircraft, permitted a sale by General Electric of Airbus engine spare parts to be installed on several Iran Air passenger aircraft (by European airline contractors). H.R. 1400 would ban such sales of spare parts.

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

- Since April 1999, commercial sales of food and medical products to Iran have been allowed, on a case-by-case basis and subject to OFAC licensing. According to OFAC in April 2007, licenses for exports of medicines to treat HIV and leukemia are routinely expedited for sale to Iran, and license applications are viewed favorably for business school exchanges, earthquake safety seminars, plant and animal conservation, and medical training in Iran. Private letters of credit can be used to finance approved transactions, but no U.S. government credit guarantees are available, and U.S. exporters are not permitted to deal directly with Iranian banks. The FY2001 agriculture appropriations law (P.L. 106-387) contained a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. Neither the Clinton Administration nor the Bush Administration provided the credit guarantees. H.R. 1400 and S. 970 do not contain provisions limiting such exports to Iran.

- In April 2000, the trade ban was further eased to allow U.S. importation of Iranian nuts, dried fruits, carpets, and caviar. The United States was the largest market for Iranian carpets before the 1979 revolution, but U.S. anti-dumping tariffs imposed on Iranian products in 1986 dampened of many Iranian products. The tariff on Iranian carpets is now about 3% - 6%, and the duty on Iranian caviar is about 15%. In December 2004, U.S. sanctions were further modified to allow Americans to freely engage in ordinary publishing activities with entities in Iran (and Cuba and Sudan). As of mid-2007, the product most imported from Iran by U.S. importers is pomegranate juice concentrate. H.R. 1400 and S. 970 would re-impose the ban on importation of such goods.

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

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

Subsidiaries. The trade ban does not bar subsidiaries of U.S. firms from dealing with Iran, as long as the subsidiary has no operational relationship to the parent company. Some U.S. companies have come under scrutiny for dealings by their subsidiaries with Iran. H.R. 1400 and S. 970 — as well as the House-passed H.R. 957 — would apply sanctions to the parent companies of U.S. subsidiaries if those subsidiaries are directed or formed to trade with Iran. Among subsidiaries of U.S. firms that trade with Iran are:

- On January 11, 2005, Iran said it had let a contract to the U.S. company Halliburton, and an Iranian company, Oriental Kish, to drill for gas in Phases 9 and 10 of South Pars. Halliburton reportedly provided $30 million to $35 million worth of services per year through Oriental Kish, leaving unclear whether Halliburton would be considered in violation of the U.S. trade and investment ban or the Iran Sanctions Act (ISA),[65] because the dealings apparently involved a subsidiary of Halliburton (Cayman Islands-registered Halliburton Products and Service, Ltd, based in Dubai). On April 10, 2007, Halliburton announced that its subsidiaries had, as promised in January 2005, completed all contractual commitments with Iran and that it is no longer operating there, but Halliburton has said it is setting up a headquarters in Dubai to pursue additional business in the region.

- General Electric (GE) announced in February 2005 that it would seek no new business in Iran, and it reportedly is expected to wind down the already agreed contracts by July 2008. GE was selling Iran equipment and services for hydroelectric, oil and gas services, and medical diagnostic projects through Italian, Canadian, and French subsidiaries. The trade ban appears to bar any Iranian company from buying a foreign company that has U.S. units.

- Subsidiaries of several other U.S. energy equipment firms are apparently still in the Iranian market. These include Foster Wheeler, Dresser Rand, Schlumberger, Natco Group, and Overseas Shipholding Group. [66]

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[65] "Iran Says Halliburton Won Drilling Contract." *Washington Times*, January 11, 2005.

[66] Prada, Paulo, and Betsy McKay. Trading Outcry Intensifies. *Wall Street Journal*, March 27, 2007; Brush, Michael. Are You Investing in Terrorism? MSN Money, July 9, 2007.

- An Irish subsidiary of the Coca Cola company provides syrup for the U.S.-brand soft drink to an Iranian distributor, Khoshgovar. Local versions of both Coke and of Pepsi (with Iranian-made syrups) are also marketed in Iran by distributors who licensed the recipes for those soft drinks before the Islamic revolution and before the trade ban was imposed on Iran.

The Iran Sanctions Act (ISA). The Iran Sanctions Act penalizes foreign (or U.S.) investment of more than $20 million in one year in Iran's energy sector.[67] In the 109th Congress, broad ISA-amendment bills were H.R. 282, which was passed by the House on April 26, 2006; a Senate companion measure, S. 333; and H.R. 6198, the latter of which was passed and then signed on September 30, 2006 (P.L. 109-293). This "Iran Freedom Support Act," discussed above, extends ISA until December 31, 2011, and drops Libya from the law, and is now called the Iran Sanctions Act. It codified existing Iran sanctions, makes exports to Iran of WMD or advanced conventional weapons technology sanctionable, and recommends (but does not mandate) a 180-day time limit for the Administration to determine whether a project violates ISA. It did not change the menu of available sanctions. As noted above, it also authorized additional funding for promoting democracy in Iran. (See CRS Report RS20871, *The Iran Sanctions Act*, by Kenneth Katzman.)

No projects have actually been sanctioned under ISA, and numerous investment agreements with Iran since its enactment have helped Iran slow deterioration of its energy export sector. However, some European companies are reportedly hesitating on potential new energy investments in Iran, and there is uncertainty about whether large agreements of investments by Asian companies will be implemented. Iran did not extend a June 2008 deadline for Royal Dutch Shell and partner Repsol (Spain) to finalize a deal to develop phases 13 and 14 of the large South Pars gas field; the companies announced in May 2008 they would not pursue that deal but might bid on other phases of South Pars. The move was possibly because of U.S. pressure on foreign firms not to do business with Iran, and the implicit threat to impose ISA sanctions. In 2007, in part to express displeasure on the nuclear issue, Japan's Inpex to cut its $2 billion investment to develop Iran's large (26 billion barrels) onshore Azadegan oil field to a stake of only about 10% in that project. An agreement on that project was signed in April 2007. On the other hand, the NIE might have unfrozen some deals; on December 9, 2007 China's Sinopec finalized a 2004 deal to develop Yadavaran oil field and on December 26, 2007, Malaysia's SKS Ventures finalized a $16 billion, 25-year deal to develop on shore and off shore gas fields.

One major project that Iran believes would help its gas export sector considerably is a proposed gas pipeline from Iran through Pakistan, to India, on which Iran and Pakistan said in November 2007 that they had reached final agreement. A long delayed formal signing reportedly was to happen in late February 2008, but has not taken place to date, although Ahmadinejad's visit to India in late April 2008 has reportedly revived Indian discussions on the deal and could pave the

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[67] Originally called the Iran-Libya Sanctions Act, or ILSA; P.L. 104-172, August 5, 1996. It was renewed by P.L. 107-24, August 3, 2001; renewed again for two months by P.L. 109-267; and renewed and amended by P.L. 109-293.

way for a final agreement among the three countries. Another major deal was considered a blow to European solidarity – the agreement in March 2008 by Switzerland's EGL utility to buy 194 trillion cubic feet per year of Iranian gas for 25 years, through a Trans-Adriatic Pipeline (TAP) to be built by 2010, a deal valued at least $15 billion. The United States said it was launching a "legal review" of the deal and criticized it as sending the "wrong message" to Iran, but the deal appears to involve only purchase of Iranian gas, not development, and so many would consider it unlikely to constitute a violation of ISA. It is also not clear whether or not Iran's reported investment to build five refineries in various Asian countries would constituted sanctionable investment under ISA. H.R. 2880, as noted above, would apply ISA to sales of gasoline to Iran.

Other recently announced preliminary agreements might test Administration application of ISA. Many of these deals are included in a chart in the December 2007 GAO study referenced above. In July 2007, there was an agreement for the export of Iranian gas to Europe through the Iran-Turkey gas pipeline (a project not sanctioned under ISA), which includes Turkish development of phases 22, 23, and 24 of the large South Pars gas field. In early October 2007, government-owned GAIL (India) agreed to set up a $2.3 billion petrochemicals plant in Iran, which would presumably use natural gas and oil products to manufacture rubber, plastics, or related chemicals. Another such project is an investment by India's Essar Steel to build an oil refinery in Iran, although Essar said in November 2007 it is rethinking that project since it could potentially, because of ISA, complicate its planned investment in a steel plant in Minnesota. Syria has agreed to buy $1 billion worth of Iranian natural gas per year from Iran (via Turkey), although this does not appear to constitute an investment as defined in ISA.

H.R. 1400, passed by the House on September 25, 2007, would remove the Administration's ability to waive application of sanctions under ISA. A companion Senate measure, S. 970, does not contain a similar provision. The Administration opposes that provision on the grounds that requiring sanctions on allied companies would divide the United States and its allies on Iran policy. However, H.R. 1400 does not impose on the Administration a time limit to determine whether a project is sanctionable. H.R. 1400, S. 970, and another bill, H.R. 957 (the latter passed the House on July 31, 2007) would clarify the definitions of sanctionable entities to include official credit guarantee agencies, such as France's COFACE and Germany's Hermes, and both bills would also clearly apply ISA sanctions to pipeline and liquified natural gas (LNG) projects. H.R. 1400 would require the president to select a ban procurement from a sanctioned entity as one of the two sanctions to impose.

Divestment. A growing trend not only in Congress but in at least nine U.S. states is to require or call for or require divestment of shares of firms that have invested in Iran's energy sector (at the same levels considered sanctionable under the Iran Sanctions Act). Thus far, state legislatures in California, Florida, Louisiana, and Missouri have passed divestment legislation on Iran. Pending legislation, H.R. 1400 (see below), does not require divestment, but requires a presidential report on firms that have invested in Iran's energy sector. Another bill, H.R. 1357, would require government pension funds to divest of shares in firms that have made ISA-sanctionable investments in Iran's energy sector and bar government and private pension funds from future investments in such firms. Two other bills, H.R. 2347

(passed by the House on July 31, 2007) and S. 1430, would protect mutual fund and other investment companies from shareholder action for any losses that would occur from divesting in firms that have investing in Iran's energy sector.

Pending Sanctions Legislation: H.R. 1400 and S. 970. Legislation pending in the 110th Congress — primarily the Iran Counter-Proliferation Act of 2007, H.R. 1400 and S. 970 — would attempt to compel foreign adoption of tighter sanctions against Iran. Their provisions on the Iran Sanctions Act were noted above. In addition, both bills would broaden the types of foreign entities (to include official credit guarantee agencies, for example) that could be sanctioned by the United States for dealings with Iran. H.R. 1400, passed by the House on September 25, 2007 by a vote of 397-16, would remove presidential waiver authority to avoid sanctioning such companies. The bills would mandate cuts in U.S. contributions to the World Bank for lending to Iran and preventing Russia from obtaining a nuclear agreement with the United States if it continues supplying nuclear technology to Iran. Other provisions of both would rescind the easing of the U.S. trade ban with Iran.

Travel-Related Guidance. Use of U.S. passports for travel to Iran is permitted. Iranians entering the United States are required to be fingerprinted, and Iran has imposed reciprocal requirements. In May 2007 the State Department increased its warnings about U.S. travel to Iran, based largely on the arrests of the dual Iranian-American nationals discussed earlier.

Status of Some U.S.-Iran Assets Disputes. A U.S.-Iran Claims Tribunal at the Hague continues to arbitrate cases resulting from the 1980 break in relations and freezing of some of Iran's assets. Major cases yet to be decided center on hundreds of Foreign Military Sales (FMS) cases between the United States and the Shah's regime, which Iran claims it paid for but were unfulfilled. About $400 million in proceeds from the resale of that equipment was placed in a DOD FMS account, and about $22 million in Iranian diplomatic property remains blocked, although U.S. funds have been disbursed — credited against the DOD FMS account — to pay judgments against Iran for past acts of terrorism against Americans. Other disputes include the mistaken U.S. shoot-down on July 3, 1988, of an Iranian Airbus passenger jet (Iran Air flight 655), for which the United States, in accordance with an ICJ judgment, paid Iran $61.8 million in compensation ($300,000 per wage earning victim, $150,000 per non-wage earner) for the 248 Iranians killed. The United States has not compensated Iran for the airplane itself. As it has in past similar cases, the Administration has opposed a terrorism lawsuit against Iran by victims of the U.S. Embassy Tehran seizure on the grounds of diplomatic obligation.[68]

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

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[68] See CRS Report RL31258, *Suits Against Terrorism States by Victims of Terrorism*, by Jennifer K. Elsea.

the Islamic regime is removed or moderates substantially, even if a nuclear deal is reached and implemented. The Administration and many experts believe that Iran has become emboldened by the installation of pro-Iranian regimes in Iraq and Afghanistan, and the new strength of Hezbollah in Lebanon, and that Iran now seeks to press its advantage to strengthen regional Shiite movements and possibly drive the United States out of the Gulf. Others reach an opposite conclusion, stating that Iran now feels more encircled than ever by pro-U.S. regimes and U.S. forces guided by a policy of pre-emption, and Iran is redoubling its efforts to develop WMD and other capabilities to deter the United States. Some say that, despite Ahmadinejad's presidency, the United States and Iran have a common interest in stability in the Persian Gulf and South Asia regions in the aftermath of the defeat of the Taliban and the regime of Saddam Hussein and that major diplomatic overtures to Iran should be explored.

Figure 1. Structure of the Iranian Government

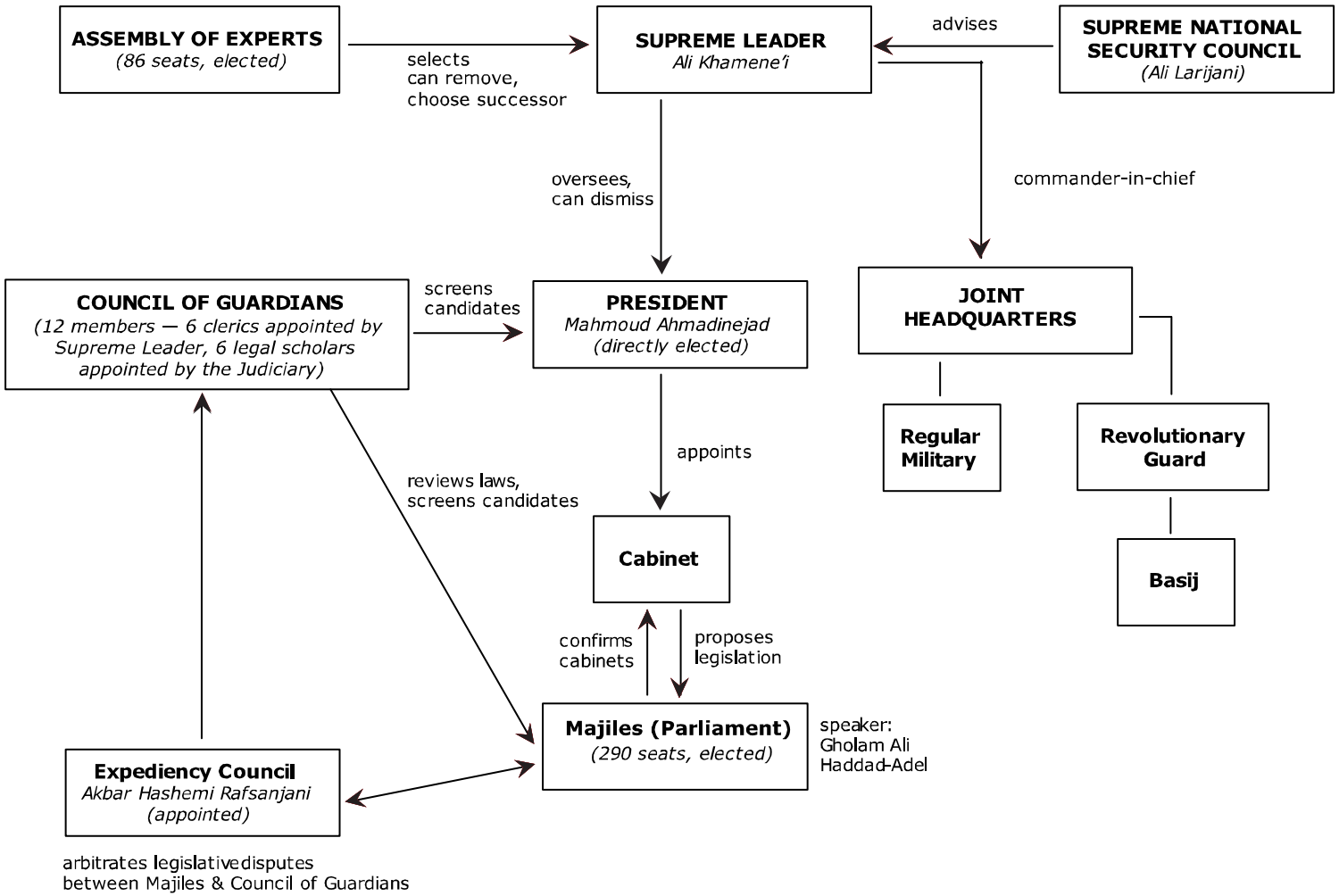
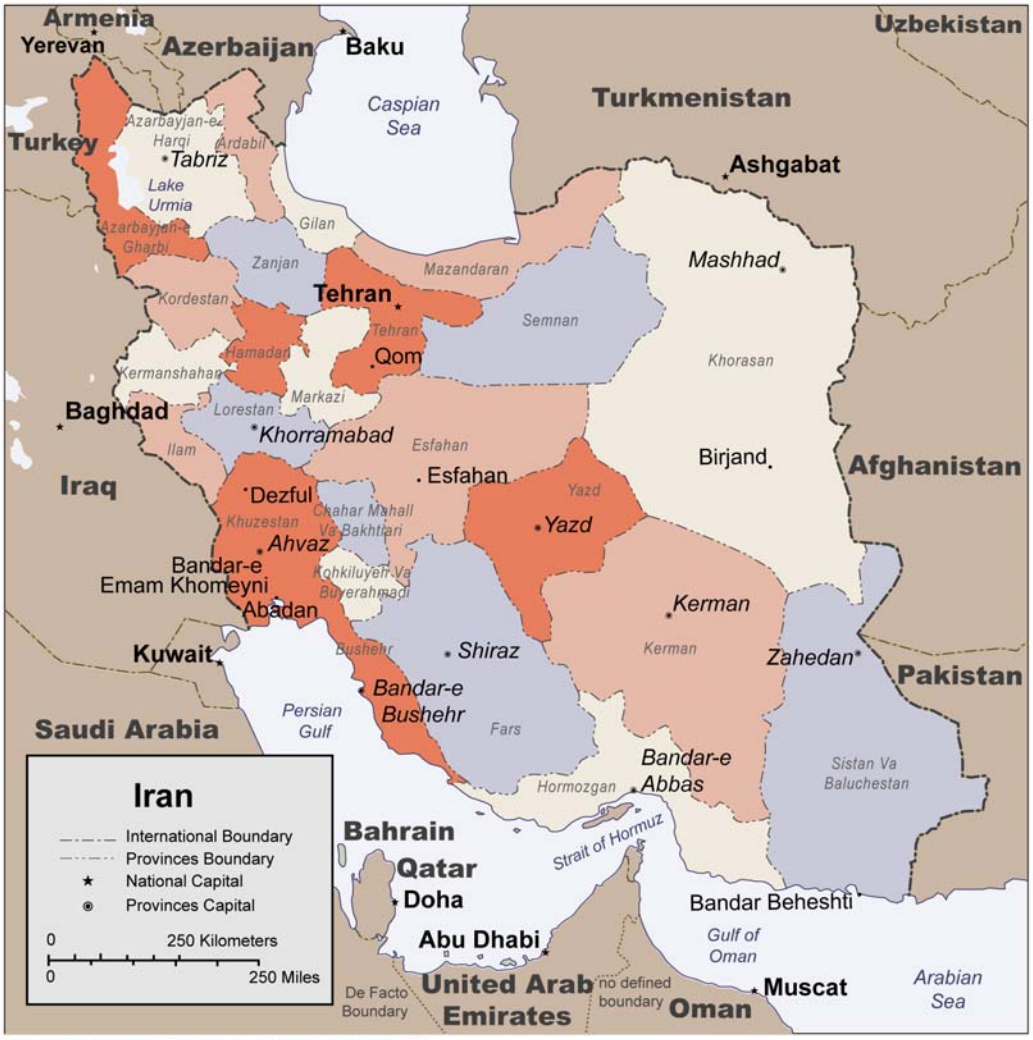


Figure 2. Map of Iran



Source: Map Resources. Adapted by CRS.

Table 9. Entities Sanctioned by U.N. Resolutions and Executive Order 13382

Entities Named for Sanctions Under Resolution 1737		
Atomic Energy Organization of Iran (AEIO)	Mesbah Energy Company (Arak supplier)	Kalaye Electric (Natanz supplier)
Pars Trash Company (centrifuge program)	Farayand Technique (centrifuge program)	Defense Industries Organization (DIO)
7th of Tir (DIO subordinate)	Shahid Hemmat Industrial Group (SHIG) — missile program	Shahid Bagheri Industrial Group (SBIG) missile program
Fajr Industrial Group (missile program)	Mohammad Qanadi, AEIO Vice President	Behman Asgarpour (Arak manager)
Dawood Agha Jani (Natanz official)	Ehsan Monajemi (Natanz construction manager)	Jafar Mohammadi (adviser to AEIO)
Ali Hajinia Leilabadi (director of Mesbah Energy)	Lt. Gen. Mohammad Mehdi Nejad Nouri (Malak Ashtar University of Defence Technology rector)	Gen Hosein Salimi (Commander, IRGC Air Force)
Ahmad Vahid Dastjerdi (head of Aerospace Industries Org., AIO)	Reza Gholi Esmaeli (AIO official)	Bahmanyar Morteza Bahmanyar (AIO official)
Maj. Gen. Yahya Rahim Safavi (Commander in Chief, IRGC)		
Entities Added by Resolution 1747		
Ammunition and Metallurgy Industries Group (controls 7th of Tir)	Esfahan Nuclear Fuel Research and Production Center and Esfahan Nuclear Technology Center	Kavoshyar Company (subsidiary of AEIO)
Parchin Chemical Industries (branch of DIO)	Karaj Nuclear Research Center	Novin Energy Company
Cruise Missile Industry Group	Bank Sepah (funds AIO and subordinate entities)	Sanam Industrial Group (subordinate to AIO)
Ya Mahdi Industries Group	Qods Aeronautics Industries (produces UAV's, para-gliders for IRGC asymmetric warfare)	Pars Aviation Services Company (maintains IRGC Air Force equipment)
Sho'a Aviation (produces IRGC light aircraft for asymmetric warfare)	Fereidoun Abbasi-Davani (senior defense scientist)	Mohasen Fakrizadeh-Mahabai (defense scientist)
Seyed Jaber Safdari (Natanz manager)	Amir Rahimi (head of Esfahan nuclear facilities)	Mohsen Hojati (head of Fajr Industrial Group)
Mehrdada Akhlaghi Ketabachi (head of SBIG)	Naser Maleki (head of SHIG)	Ahmad Derakshandeh (head of Bank Sepah)

Brig. Gen. Morteza Reza'i (Deputy commander-in-chief, IRGC)	Vice Admiral Ali Akbar Ahmadiyan (chief of IRGC Joint Staff)	Brig. Gen. Mohammad Reza Zahedi (IRGC ground forces commander)
Rear Admiral Morteza Safari (commander, IRGC Navy)	Brig. Gen. Mohammad Hejazi (Basij commander)	Brig. Gen. Qasem Soleimani (Qods Force commander)
Gen. Mohammad Baqr Zolqadr (IRGC officer serving as deputy Interior Minister		
Entities Added by Resolution 1803		
Thirteen Iranians named in Annex 1 to Resolution 1803; all reputedly involved in various aspects of nuclear program	Abzar Boresh Kaveh Co. (centrifuge production)	Barzaganin Tejaral Tavanmad Saccal
Electro Sanam Co.	Ettehad Technical Group (AIO front co.)	Industrial Factories of Precision
Jabber Ibn Hayan	Joza Industrial Co.	Khorasan Metallurgy Industries
Niru Battery Manufacturing Co. (Makes batteries for Iranian military and missile systems)	Pshgam (Pioneer) Energy Industries	Safety Equipment Procurement (AIO front, involved in missiles)
Tamas Co. (involved in uranium enrichment)		

Entities Designated Under U.S. Executive Order 13382	
Entity	**Date Named**
Shahid Hemmat Industrial Group (Iran)	June 2005, Sept. 07
Shahid Bakeri Industrial Group (Iran)	June 2005
Atomic Energy Organization of Iran	June 2005
Novin Energy Company (Iran)	January 2006
Mesbah Energy Company (Iran)	January 2006
Four Chinese entities: Beijing Alite Technologies, LIMMT Economic and Trading Company, China Great Wall Industry Corp, and China National Precision Machinery Import/Export Corp.	June 2006
Sanam Industrial Group (Iran)	July 2006
Ya Mahdi Industries Group (Iran)	July 2006
Bank Sepah (Iran)	January 2007
Defense Industries Organization (Iran)	March 2007
Pars Trash (Iran, nuclear program)	June 2007
Farayand Technique (Iran, nuclear program)	June 2007
Fajr Industries Group (Iran, missile program)	June 2007

Mizan Machine Manufacturing Group (Iran, missile prog.)	June 2007
Aerospace Industries Organization (AIO) (Iran)	Sept. 2007
Korea Mining and Development Corp. (N. Korea)	Sept. 2007
Islamic Revolutionary Guard Corps (IRGC)	October 21, 2007
Ministry of Defense and Armed Forces Logistics	October 21, 2007
Bank Melli (Iran's largest bank, widely used by the Guard); Bank Melli Iran Zao (Moscow); Melli Bank PC (U.K.)	October 21, 2007
Bank Kargoshaee	October 21, 2007
Arian Bank (joint venture between Melli and Bank Saderat). Based in Afghanistan	October 21, 2007
Bank Mellat (provides banking services to Iran's nuclear sector); Mellat Bank SB CJSC (Armenia). Reportedly has $1.4 billion in assets in UAE	October 21, 2007
Persia International Bank PLC (U.K.)	October 21, 2007
Khatam ol Anbiya Gharargah Sazendegi Nooh (Revolutionary Guard construction, contracting arm, with $7 billion in oil, gas deals	October 21, 2007
Oriental Oil Kish (Iranian oil exploration firm)	October 21, 2007
Ghorb Karbala; Ghorb Nooh (synonymous with Khatam ol Anbiya)	October 21, 2007
Sepasad Engineering Company (Guard construction affiliate)	October 21, 2007
Omran Sahel (Guard construction affiliate)	October 21, 2007
Sahel Consultant Engineering (Guard construction affiliate)	October 21, 2007
Hara Company	October 21, 2007
Gharargahe Sazandegi Ghaem	October 21, 2007
Bahmanyar Morteza Bahmanyar (AIO, Iran missile official, see above under Resolution 1737)	October 21, 2007
Ahmad Vahid Dastjerdi (AIO head, Iran missile program)	October 21, 2007
Reza Gholi Esmaeli (AIO, see under Resolution 1737)	October 21, 2007
Morteza Reza'i (deputy commander, IRGC) See also Resolution 1747	October 21, 2007
Mohammad Hejazi (Basij commander). Also, Resolution 1747	October 21, 2007
Ali Akbar Ahmadian (Chief of IRGC Joint Staff). Resolution 1747	October 21, 2007
Hosein Salimi (IRGC Air Force commander). Resolution 1737	October 21, 2007
Qasem Soleimani (Qods Force commander). Resolution 1747	October 21, 2007
Future Bank (Bahrain-based but allegedly controlled by Bank Melli)	March 12, 2008
Entities Sanctioned Under Executive Order 13224 (Terrorism Entities)	
Qods Force	October 21, 2007
Bank Saderat (allegedly used to funnel Iranian money to Hezbollah, Hamas, PIJ, and other Iranian supported terrorist groups)	October 21, 2007
Entities Sanctioned Under the Iran Non-Proliferation Act and other U.S. Proliferation Laws	
Norinco (China). For alleged missile technology sale to Iran.	May 2003
Taiwan Foreign Trade General Corporation (Taiwan)	July 4, 2003

Tula Instrument Design Bureau (Russia). For alleged sales of laser-guided artillery shells to Iran.	September 17, 2003
13 entities sanctioned including companies from Russia, China, Belarus, Macedonia, North Korea, UAE, and Taiwan.	April 7, 2004
14 entities from China, North Korea, Belarus, India (two nuclear scientists, Dr. Surendar and Dr. Y.S.R. Prasad), Russia, Spain, and Ukraine.	September 29, 2004
14 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. Newly sanctioned entities included North Korea's Paeksan Associated Corporation, and Taiwan's Ecoma Enterprise Co.	December 2004 and January 2005
9 entities, including those from China (Norinco yet again), India (two chemical companies), and Austria. Sanctions against Dr. Surendar of India (see September 29, 2004) were ended, presumably because of information exonerating him.	December 26, 2005
7 entities. Two Indian chemical companies (Balaji Amines and Prachi Poly Products); two Russian firms (Rosobornexport and aircraft manufacturer Sukhoi); two North Korean entities (Korean Mining and Industrial Development, and Korea Pugang Trading); and one Cuban entity (Center for Genetic Engineering and Biotechnology).	August 4, 2006
9 entities. Rosoborneksport, Tula Design, and Komna Design Office of Machine Building, and Alexei Safonov (Russia); Zibo Chemical, China National Aerotechnology, and China National Electrical (China). Korean Mining and Industrial Development (North Korea) for WMD or advanced weapons sales to Iran (and Syria).	January 2007
14 entities, including Lebanese Hezbollah. Some were penalized for transactions with Syria. Among the new entities sanctioned for assisting Iran were Shanghai Non-Ferrous Metals Pudong Development Trade Company (China); Iran's Defense Industries Organization; Sokkia Company (Singapore); Challenger Corporation (Malaysia); Target Airfreight (Malaysia); Aerospace Logistics Services (Mexico); and Arif Durrani (Pakistani national).	April 23, 2007
Entities Designated as Threats to Iraqi Stability under Executive Order 13438	
Ahmad Forouzandeh. Commander of the Qods Force Ramazan Headquarters, accused of fomenting sectarian violence in Iraq and of organizing training in Iran for Iraqi Shiite militia fighters	January 9, 2008
Abu Mustafa al-Sheibani. Iran based leader of network that funnels Iranian arms to Shiite militias in Iraq.	January 9, 2008
Isma'il al-Lami (Abu Dura). Shiite militia leader, breakaway from Sadr Mahdi Army, alleged to have committed mass kidnappings and planned assassination attempts against Iraqi Sunni politicians	January 9, 2008
Mishan al-Jabburi. Financier of Sunni insurgents, owner of pro-insurgent Al-Zawra television, now banned	January 9, 2008
Al Zawra Television Station	January 9, 2008