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Iran: Current Developments and U.S. Policy

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Iran: Current Developments and U.S. Policy

SUMMARY

More than two decades after the November 4, 1979 seizure of the U.S. embassy in Tehran, signs of moderation in Iran have stimulated the United States to try to engage Iran in official talks on issues that divide the two countries. Iran, still split between conservatives and reformers loyal to President Mohammad Khatemi, has not accepted to date. At the same time, the Bush Administration and many in Congress do not want to abandon efforts to counter Iran's continued support for international terrorism and for groups opposing the Arab-Israeli peace process, as well as efforts to acquire weapons of mass destruction (WMD) programs.

Iran's human rights practices, particularly its treatment of the Baha'i and the Jewish communities, are also a major concern, although the Clinton Administration did not cite progress as a specific condition for an improvement in relations. The Bush Administration has identified Iran's modernization of its conventional forces as a potential threat to U.S. interests in the Persian Gulf, but others argue that the buildup has been minor and that Iran still is relatively poorly equipped.

Iran's efforts to acquire WMD and delivery means, particularly its ballistic missile program, have made major strides over the past few years, with the help of foreign suppliers. Barred from U.S. or European advanced technology, China, Russia, and North Korea are the principal suppliers of Iran's weaponry and WMD-related technology.

Iran has opposed the U.S.-led Middle East peace process since its inception in October 1991. It continues to provide material support to Hizballah in Lebanon and to Islamic-oriented Palestinian groups that

oppose the Arab-Israeli peace process, and all Iranian factions have strongly supported the terrorist attacks carried out by these groups in clashes with Israel since September 2000. On the other hand, Iran has few ties to the non-Islamist Palestinian groups driving most of the violence in the new uprising.

Current U.S. policy toward Iran marks an apparent shift from the almost exclusive focus on containment that characterized U.S. policy during 1980 - 1997. During the first term of the Clinton Administration, as part of a policy of "dual containment" of Iran and Iraq, President Clinton imposed a ban on U.S. trade and investment in Iran in 1995, and a 1996 law imposed sanctions on foreign investment in Iran's energy sector (Iran-Libya Sanctions Act, ILSA). The sanctions were intended to deny Iran the material resources to threaten U.S. interests.

In keeping with the 1997 policy shift toward engagement, in 1999 and 2000 the Clinton Administration and Congress eased sanctions somewhat to allow U.S. exports to Iran of food and medical supplies and importation from Iran of luxury consumer goods, such as carpets. However, the United States continues to work with its allies to prevent arms and advanced technology sales to Iran and to limit Iran's influence over regional energy flows. U.S. purchases of Iranian oil and U.S. company investments in Iran remain barred. ILSA is scheduled to expire in August 2001, but appears likely to be renewed.

MOST RECENT DEVELOPMENTS

On March 12, Iranian President Mohammad Khatemi visited Moscow and signed a series of agreements with Russia to restart arms sales to Tehran and to cooperate on Caspian energy and security issues. No specific arms sales were announced. Bush Administration officials, in concert with the April 30, 2001 release of the annual State Department report on international terrorism, said that Iran is playing an increasingly active role in coordinating the operations of groups active against the Arab-Israeli peace process. Against nine generally conservative candidates, President Khatemi won re-election on June 8 with 77% of the vote and a turnout of about 70%. Bills to renew the Iran-Libya Sanctions Act for another five years have been introduced in the House (H.R. 1954) and the Senate (S.994) with majorities as cosponsors.

BACKGROUND AND ANALYSIS

The power struggle in Iran between revolutionary purists and more moderate reformists colors Iran's domestic and foreign policies. The reformist President Mohammad Khatemi, who was re-elected on June 8, 2001 by a landslide 77% of the vote against nine more conservative candidates, holds a popular mandate for greater domestic freedoms. This was larger than his 69% win in May 1997. Supreme Leader Ali Khamene'i (successor to Ayatollah Khomeini) and other hardliners, who control key levers of power, oppose loosening domestic restrictions or moderating foreign policy. As a result of February 18, 2000 Majlis (parliamentary) elections, reformists hold about 70% of the 290 seats in the Majlis. As part of a backlash against the reformists, since April 2000, hardliners in the judiciary have closed more than 30 reformist newspapers and imprisoned or questioned several editors. In early August 2000, Khamene'i blocked a move by the new Majlis to ease restrictions on the press, and a few months later, hardliners forced the resignation of Khatemi's top aide, Culture Minister Ataollah Mohajerani.

Iran's Strategic Buildup

Iran is not considered a major conventional threat to the United States, but some of its weapons of mass destruction (WMD) programs, particularly medium range ballistic missiles, appear to be making significant progress. Bush Administration officials have also expressed concern about Iran's plans to resume a conventional buildup. For information on Iran's purchases of arms and WMD technology, see CRS Report RL30551, *Iran: Arms and Technology Acquisitions*.

Conventional Weapons

Iran's armed forces total about 550,000 personnel, including both the regular military and the Revolutionary Guard. The latter force, commanded since September 1997 by Rahim Safavi, tends to side with hardliners in internal power struggles. Financial limitations slowed Iran's defense acquisitions to about \$300 million per year during 1996-1999, from over \$1

billion per year in the early 1990s, although purchase levels appear set to rise again. Equipment already purchased has given Iran the ability to temporarily block the Strait of Hormuz or disrupt international shipping, but Iran is considered to lack the capability to move significant numbers of troops across the Gulf. In November 2000, Russia told the United States it would no longer abide by a 1995 pledge to refrain from new conventional arms deals with Iran, and in February 2001, Iran's ambassador to Moscow said Iran planned to purchase about \$7 billion worth of Russian weapons in coming years. Khatemi visited Moscow on March 12, 2001, and the two sides agreed that Russia will resume new arms sales to Iran. No weapons sales were announced, but there are reports of talks on specific systems, including Russia's S-300 air defense system (the Russian counterpart of the U.S. "Patriot"). Reacting to U.S. concern, Russian officials said the new sales would be "defensive" in nature – mainly spare parts for arms already bought. (A provision of the Anti-Terrorism and Effective Death Penalty Act of 1996, P.L. 104-132, cuts U.S. aid to countries that sell lethal military equipment to countries on the U.S. terrorism list.) Iran and Russia also pledged to align their positions on Caspian energy development and Caspian area security. For further information on Iran's purchases of advanced conventional weapons, including from Russia, see CRS Report RL30551, *Iran: Arms and Technology Acquisitions*. See also CRS Report RL30640, *Conventional Arms Transfers to Developing Nations, 1992-1999*.

In connection with an April visit to Tehran by India's Prime Minister Vajpayee, the United States is concerned about press reports that India wants to jointly produce combat aircraft and missiles with Iran. Iran and India are de-facto allies in containing the Sunni Muslim Islamist threat from the Taliban regime in Afghanistan and the Taliban's "guest," exiled Saudi terrorist financier Usama bin Ladin.

Weapons of Mass Destruction

U.S. government proliferation reports, including a February 2001 CIA report covering January - June 2000, assert that Iran is actively seeking to acquire weapons of mass destruction (WMD) and advanced conventional weapons, assisted primarily by Russia, China, and North Korea. The Clinton Administration asserted it had diminished Iran's access to controlled technology by working through multilateral export control regimes such as the Wassenaar Arrangement, Missile Technology Control Regime, Nuclear Suppliers Group, Zangger Committee, and Australia Group. (See also CRS Report RL30408, *Weapons of Mass Destruction in the Middle East*.)

Chemical and Biological Weapons. Recently issued U.S. proliferation reports state that Iran continues to seek technology that could be used to create a self-sufficient chemical weapons infrastructure, that it may have some capability for biological weapons deployment, and that it has stockpiled chemical weapons, including blister, blood, and choking agents. The assertions raise doubts that Iran is fully complying with its obligations under the Chemical Weapons Convention (CWC), which Iran signed on January 13, 1993, and ratified on June 8, 1997. Iran has made required declarations under the CWC, and the Organization for the Prohibition of Chemical Weapons (OPCW), charged with monitoring the convention, toured Iran's declared chemical sites in February 1999. Iranian officials have asserted that the OPCW is satisfied with Iran's compliance thus far. Iran is a party to the 1972 Biological and Toxin Weapons Convention.

Missiles. Largely with Russian help, Iran is making progress in its missile program, although two of its first three tests of the 800-mile range *Shahab-3* (July 1998, July 2000, and September 2000) were either inconclusive or unsuccessful. (The July 2000 test appears to have been a success.) Iran is also developing a 1,200 mile range *Shahab-4*, and it has publicly mentioned an even longer-range *Shahab-5*, although development of the *Shahab-5* apparently has not begun, according to U.S. reports. During his March 2001 visit to Russia, Khatemi visited the operations center of the Russian Space Agency, including its command center for the International Space Station; subordinate units of the agency are allegedly helping Iran's missile production. The *Washington Times* reported on April 18, 2001, that North Korea was in the process of shipping missile components to Iran. On May 31, 2001, Iran announced a test of an indigenously-produced *Fateh (Victorious) 110* solid fuel missile; range unspecified. The test caused the United States to repeat its general concerns about Iran's missile programs. For further discussion of foreign help with Iran's missile programs, see CRS Report RL30551, *Iran: Arms and Technology Acquisitions*.

Nuclear Weapons. U.S. officials believe Iran is acquiring the expertise and technology that could be used in a nuclear weapons program. Russia, despite U.S. protests, is proceeding with its January 1995 contract with Iran to complete a nuclear power plant at Bushehr. The work is advancing very slowly because of technical difficulties, but Russia has pledged to complete it by the end of 2002. There have been inconclusive Iranian and Russian statements on whether Iran will commission Russia to build a second reactor at Bushehr. Iran accepts International Atomic Energy Agency (IAEA) safeguards of its known nuclear facilities, and agency visits to Iran's declared facilities since 1992 have found no evidence at the sites visited to indicate Iran is developing nuclear weapons. The Clinton Administration wanted Iran to accept all facets of an enhanced inspections program ("93+2") that would include undeclared facilities, but Iran is resisting key aspects of that inspection program. Khatemi visited China during June 2000, but both sides claimed that nuclear cooperation was not discussed. However, the February 2001 CIA report, which covered the period of the Khatemi visit, dropped language from previous reports that China has kept its pledge to the United States to refrain from new nuclear cooperation with Iran.

Each year since FY1998, foreign aid laws have cut half the U.S. aid to the Russian government if it continues the Bushehr project or assists Iran's ballistic missile program. No waiver was provided for either in the FY1998 or the FY2000 legislation, although the cuts do not apply to nuclear dismantlement in Russia or aid to the Russian private sector. The foreign operations appropriation for FY2001 (P.L. 106-429) contains a similar provision, but increases the aid cut to 60%. The House version of the FY2002/3 foreign relations authorization bill, H.R. 1646, passed by the House on May 16, 2001, contains Title IX, the Iran Nuclear Proliferation Prevention Act of 2001. Virtually identical to bills introduced in the 106th and 105th congresses, the provision would make the IAEA subject to cuts in U.S. voluntary contributions if it continued technical assistance to Iran's nuclear program.

Iranian Foreign Policy and Involvement in Terrorism

The State Department report on international terrorism for 2000, released April 30, 2001, states that Iran "remained the most active state sponsor of terrorism in 2000," although the report attributed that activity to two hardline institutions – the Revolutionary Guard and the Intelligence Ministry. (See also CRS Report RL30643, *Terrorism: Near Eastern Groups and State Sponsors, 2000*.)

Persian Gulf

Khatemi has largely succeeded in improving relations with Iran's neighbors, particularly the six states of the Gulf Cooperation Council (GCC; Saudi Arabia, Kuwait, Bahrain, Qatar, Oman, and the United Arab Emirates). For more information, see CRS Report RL30728, *Persian Gulf: Issues for U.S. Policy, 2000*. November 3, 2000.

Saudi Arabia/Khobar Towers/Gulf States. Iran and Saudi Arabia restored relations in December 1991 (after a four year break), and progressively higher level contacts have taken place since December 1997. An Iranian warship made a friendly visit to the Saudi port of Jeddah in March 1998. In May 1999, Khatemi became the first senior Iranian leader to visit Saudi Arabia since the Islamic revolution. In April 2000, Saudi Arabia's number three leader, Prince Sultan, hosted a visit by Iran's Defense Minister. Supreme Leader Khamene'i has been invited to visit the Kingdom as well. In mid-April 2001, Saudi Arabia and Iran formally entered into an anti-crime security pact, suggesting that Saudi Arabia wishes to drop the issue of the June 25, 1996 Khobar Towers housing complex bombing, which killed 19 U.S. airmen. The United States has acknowledged asking Iran for cooperation on Khobar, and the State Department said on October 5, 1999, that the United States had "information but not proof" that Iranian government agents were involved. Iran rebuffed the request for cooperation. On October 30, 2000, Saudi Arabia said that key suspects remain "outside" Saudi Arabia, a statement widely interpreted as implying that some of them are in Iran. In a *New Yorker* article published in May 2001, outgoing FBI Director Louis Freeh was reported as saying he had given the Bush Administration a list of persons, including Iranian officials, who should be indicted for Khobar. Two of the suspects are said to be the commander of the Iranian Revolutionary Guard's export-of-the-revolution unit (Qods force) Ahmad Vahidi, and his subordinate, Ahmad Sharifi. In 2000, Iran entered into anti-crime security pacts with the other Gulf states of Kuwait and Oman. (See CRS Issue Brief IB93113, *Saudi Arabia: Postwar Issues and U.S. Relations*.)

Gulf Islands Dispute With UAE. Relations between Iran and the UAE deteriorated sharply in April 1992, when Iran asserted complete control of the Persian Gulf island of Abu Musa, which it and the UAE shared under a 1971 bilateral agreement. (In 1971, Iran, then ruled by the U.S.-backed Shah, seized two other islands, Greater and Lesser Tunb, from the emirate of Ras al-Khaymah, which later became part of the UAE.) The UAE wants to refer the dispute to the International Court of Justice (ICJ), but Iran insists on resolving the issue bilaterally. Several GCC states – Saudi Arabia, Qatar, and Oman – are attempting to mediate but have had little success thus far. The United States, which is concerned about Iran's military improvements to the islands, generally supports UAE proposals but takes no position on the sovereignty of the islands. *Jane's Defence Weekly* reported in March 2000 that Iran's military improvements were relatively minor.

Iraq. A legacy of the 8-year long Iran-Iraq war (1980-1988) is deep lingering suspicion between Iran and Iraq, but relations have improved dramatically over the past few years. In early 1998, the two began exchanging large numbers of prisoners from the 1980-1988 Iran-Iraq war, alleviating a key source of friction. An October 2000 visit to Iraq by Iran's Foreign Minister Kamal Kharrazi resulted in apparent agreement to abide by the waterway-sharing and other provisions of their 1975 Algiers Accords, which Iraq had abrogated prior to its September 1980 invasion of Iran. Subsequently, Khatemi met with

Iraq's second-highest official (Izzat Ibrahim) on the sidelines of an Organization of Islamic Conference (OIC) meeting in mid-November 2000. Iran helps Iraq export oil products (worth about \$90 million per month as of late-2000) in contravention of U.N. Security Council resolutions, although Iran has occasionally intercepted some illicit shipments of Iraqi oil, earning some praise from the United States. Although official relations have improved, some Iranian hardliners still give support to Shiite militants in southern Iraq (the Supreme Council for the Islamic Revolution in Iraq, SCIRI) trying to overthrow Iraq's regime. Iran apparently allowed the Iraqi National Congress (INC), Iraq's main opposition umbrella, to open an office in Tehran as of March 2001.

Middle East Peace Process/North Africa

Many of the allegations of Iran's support for terrorism center on its assistance to Islamist organizations opposed to the Arab-Israeli peace process, primarily Hamas, Palestinian Islamic Jihad (PIJ), Hizballah, and the Popular Front for the Liberation of Palestine-General Command. Apparently referring to Iranian aid to anti-peace process groups, the Assistant Secretary of State for Near East Affairs, Edward Walker, testified on March 29, 2001, that Iran's support for terrorism had increased recently, an assessment reiterated by U.S. officials when the State Department annual terrorism report for 2000 was released. Iran is said to be urging these groups to coordinate their terrorist attacks on Israelis, begun in late September 2000. PIJ claimed responsibility for the June 1, 2001 bombing in Tel Aviv that killed 19 Israelis, mostly youths. On the other hand, Iran traditionally has had few ties to the non-Islamist Palestinian organizations that appear to be sponsoring much of the day-to-day violence against Israel in the current uprising.

Many in Congress have strongly criticized Iran's incitement activities, such as its hosting of a conference for anti-peace process organizations on April 24, 2001. The conference served as a platform for Iranian statements against Israel that the United States called "outrageous and intolerable." Khamene'i told the meeting that Israelis had exaggerated the Holocaust to justify "crimes" against the Palestinians. Khamene'i said in early November 2000 that the crisis could end only if Israel were "eradicated," and Iran's Foreign Minister said on March 21, 2001 that Iran is seeking a broad alliance of Islamic countries to force an end to Israel's occupation of Arab lands. On May 18, 2001, Khamene'i called on Islamic countries to arm the Palestinians for their uprising. Prior to the Israeli-Palestinian crisis, Khatemi had tried to moderate Iran's position somewhat, saying that Iran would not work actively to derail the process. At the same time, Khatemi has consistently sought to avoid conflict with hardliners by joining them in a denunciation of Israeli-Palestinian interim agreements, and by pledging continued support to anti-peace process groups. Iran and Syria jointly called on the Palestinians to abandon the peace process with Israel during a visit to Iran by Syria's President Bashar al-Assad on January 25, 2001.

About 100 Iranian Revolutionary Guards remain in Lebanon to coordinate arms deliveries to Hizballah, and the *Los Angeles Times* reported on May 6, 2001 that the United States, in late 2000, succeeded in persuading Turkey to prevent Iran from flying over Turkish airspace to Syria, thereby denying Iran an easy route for resupplying Hizballah. Even though the United Nations certified Israel's May 2000 withdrawal from Lebanon as complete, Hizballah continues to battle Israel in the Shebaa Farms border area that Israel occupies; Iran publicly supported Hizballah's ambush and capture of three Israeli soldiers and one alleged Israeli agent in October 2000, all in the Shebaa Farms area. (H.Res. 99 expresses the sense

of the House of Representatives that Iran, Syria, and Lebanon pressure Hizballah to allow visitations to the four captives by the International Committee of the Red Cross.)

On May 10, 1999, Argentina's Supreme Court ruled that the March 17, 1992 bombing of the Israeli Embassy in Buenos Aires was the work of Hizballah. On September 2, 1999, Argentina issued an arrest warrant for senior Hizballah guerrilla leader Imad Mughniyah in connection with it. An Argentine judge has also accused Iran and Hizballah of a July 18, 1994 bombing of a Jewish cultural center (AMIA) in Buenos Aires; twenty alleged Argentine accomplices have been arrested and will be tried in 2001, but the main suspects are still at large. H.Res. 531 and S.Res. 329, calling on Argentina to step up the investigation of the 1994 bombing, were passed by their full chambers on July 17 and July 19, 2000, respectively. In May 2001, an FBI team traveled to Argentina to help with the AMIA investigation.

Sudan/Egypt/Algeria. Sudan's close relations with Iran in the early 1990s contributed to Sudan's placement on the U.S. "terrorism list" on August 18, 1993. Sudan continues to allow Iran to provide aid to terrorist groups operating there. In the past, Egypt has blamed Iran and Sudan for helping radical Islamic organizations in Egypt, but it has recently muted that allegation. Khatemi said in October 1999 that he wants full normalization with Egypt, but Egypt demands, as a precondition, that Iran rename a Tehran street named for Sadat's assassin (Khalid Islambouli). Foreign Minister Kharrazi's visit to Cairo in February 2001 renewed speculation that the two countries might soon resume official ties. Iran and Algeria restored relations on September 8, 2000; they were broken in 1992 by Algeria, which accused Iran of aiding Islamic opponents of the secular regime.

Central and South Asia/Azerbaijan

Iran's policy in Central Asia has thus far emphasized economic cooperation over Islamic ideology, although Azerbaijan and some Central Asian states remain suspicious of Iran's political and economic goals. In early 1992, Iran led the drive to bring the Central Asian states and Azerbaijan into the Economic Cooperation Organization (founded in 1985 by Iran, Pakistan, and Turkey, as a successor to an organization founded by those states in 1964). Iran is hoping to attract energy pipeline routes through it, rather than through other countries. Iran does not appear to be supporting radical Islamic fundamentalist groups in the Central Asian countries (with the possible exception of Tajikistan) or in Russia's Dagestan and Chechnya regions, but Iran does host at least one anti-Azerbaijan guerrilla leader (Hasan Javadov), and it reportedly allows anti-Uzbekistan activists access to Iran's state radio.

Afghanistan/Pakistan. Iran opposes the puritanical Sunni Muslim regime of the Taliban in Afghanistan, which took power in Kabul in September 1996, on the grounds that it is oppressing Shiite Muslim and other Persian-speaking minorities in Afghanistan. Iran – along with the United States, Russia, and the countries bordering Afghanistan – has been attending U.N.-sponsored meetings in New York (the Six Plus Two group) to try to end the internal conflict in Afghanistan. Then Secretary of State Albright and Iranian Foreign Minister Kharrazi attended a Six Plus Two meeting in New York on September 15, 2000, but they did not conduct any bilateral discussions there. Iran nearly launched a major military campaign against the Taliban in September 1998 after Taliban fighters captured and killed several Iranian diplomats based in northern Afghanistan. Tensions eased throughout 1999, with Iran reopening the border late that year, although Iran hosted a meeting of anti-Taliban militia leaders in October 2000 and continues to host some anti-Taliban militiamen.

Differences over Afghanistan have also caused a rift in once close relations between Iran and Pakistan, which is the chief supporter of the Taliban movement, although Pakistan said in later April 2001 that it wants stronger military ties to Tehran. (See CRS Report RL30588, *Afghanistan: Current Issues and U.S. Policy Concerns.*)

Former Yugoslavia

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

Human Rights Concerns

U.S. and U.N. human rights reports cite Iran for widespread human rights abuses, (especially of the Baha'i faith), including assassinations and executions of regime opponents (Kurds, People's Mojahedin, and others) in Iran and abroad. These reports note that Khatemi's efforts to promote rule of law have encountered repeated challenges from the hardliners in Iran.

Religious Persecution. On September 5, 2000, the State Department again named Iran as a "Country of Particular Concern," under the International Religious Freedom Act. No sanctions were added, on the grounds that Iran is already subject to extensive U.S. sanctions. Religious persecution continues, especially against the Baha'i community, because Iran's Shiite Muslim clergy views the sect as heretical. Two Baha'is (Dhabihullah Mahrami and Musa Talibi) were sentenced to death in 1996 for apostasy. On July 21, 1998, Iran executed Ruhollah Ruhani, the first Bahai executed since 1992 (Bahman Samandari). The United States condemned the execution. On October 1, 1998, the United States called on Iran not to implement death sentences against two more Bahais, Sirius Zabihi-Moqaddam and Hedayat Kashefi-Najafabadi, and, in mid-February 2000, Iran's Supreme Court set aside the death sentences against them and another Baha'i, Manucher Khulusi. On April 21, 1999, the Clinton Administration expressed concern about the sentencing to prison of four Baha'is. Recent resolutions condemning Iran's treatment of the Baha'is, including S.Con.Res. 57, which passed the Senate July 19, 2000, and H.Con.Res. 257, which passed the House on September 19, 2000.

Trial of 13 Jews. Although the 30,000 member Jewish community (the largest in the Middle East aside from Israel) enjoys more freedoms than Jewish communities in several other Muslim states, during 1993-1998 Iran executed five Jews allegedly spying for Israel. In mid-June 1999, Iran confirmed that it had arrested about 13 Jews – teachers, shopkeepers, and butchers – from the Shiraz area that it said were part of an "espionage ring" for Israel. The trial began April 13, 2000; after eight of the suspects "confessed" to the allegations, they and two other Jews and two Muslims accomplices were convicted on July 1, 2000, of passing information to Israel. They received sentences ranging from 4 years to 13 years. Three Jews were acquitted. The trial and sentences provoked an international outcry, and the Clinton Administration worked through U.S. allies to intercede. Possibly as a result, on September 21, 2000, a three-judge appeals panel reduced all the sentences slightly, now ranging from 2 to 9 years, although none was released. On February 8, 2001, Iran's Supreme

Court rejected their appeals, allowing the revised sentences to stand. However, in March 2001, Iran released one of the Jews on the grounds that his sentence included time served. Several bills in the 106th Congress condemned the arrests and called for the release of the detainees and for linking U.S. relations with Iran to the trial's outcome; the Senate passed S.Con.Res. 39 (June 23, 1999) and S.Con.Res. 109 (May 4, 2000). A similar bill, H.Con.Res. 29, has been introduced in the 107th Congress.

U.S. Policy and Legislation

The February 11, 1979 fall of the Shah of Iran, a key U.S. ally, opened a long rift in U.S.-Iranian relations, but that rift has begun to abate over the past few years. On November 4, 1979, radical "students" seized the U.S. Embassy in Tehran and held its diplomats hostage until minutes after President Reagan's inauguration on January 20, 1981. The United States broke relations with Iran on April 7, 1980, and the two countries have had no official dialogue since. The exception was the abortive 1985-86 clandestine arms supply relationship with Iran in exchange for some American hostages held by Hizballah in Lebanon (the so-called "Iran-Contra Affair"). Iran maintains an interests section in Washington through the Embassy of Pakistan, staffed by Iranian permanent resident aliens or U.S. citizens of Iranian descent. The U.S. protecting power in Iran is Switzerland.

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

In a June 17, 1998 speech, then Secretary of State Albright stepped up the U.S. outreach effort by calling for mutual confidence building measures that could lead to a "road map" for normalization of relations. Encouraged by the reformist victory in Iran's March 2000 parliamentary elections, Secretary Albright gave another speech on March 17, 2000, acknowledging past U.S. meddling in Iran, easing sanctions on some Iranian imports (see below), and promising to work to resolve outstanding claims disputes left over from the revolution. Iran welcomed the steps, but called them insufficient to warrant the beginning of a dialogue. Iran also rejected a U.S. suggestion for consular visits by U.S. officials, but in late 2000 Iran began allowing some U.S. officials to attend international meetings in Iran. Iran began to expand contacts with the U.S. Congress; on August 30, 2000, in concert with a visit by President Khatemi to the United Nations, Iran's Majlis Speaker Mehdi Karroubi met in New York with several Members of Congress, discussing further contacts and the fate of the Shiraz Jews. In early September 2000 meetings at the United Nations in connection with the Millennium Summit, Secretary Albright and President Clinton sent a positive signal to Iran by attending Khatemi's speeches.

Early indications are that the Bush Administration will continue the Clinton Administration efforts to end the long U.S.-Iran estrangement, although the Administration

appears to be ruling out a further easing of sanctions in advance of an Iranian agreement to enter a political dialogue. In his confirmation hearings on January 17, 2001, Secretary of State Colin Powell said that the United States and Iran still have important substantive differences, but that this need not preclude “greater interaction.” However, in May 3, 2001 testimony, he appeared to step back from an unconditional U.S. willingness to open talks with Iran. President Bush said on April 20, 2001, that he has no intention, “as of this moment,” of lifting U.S. sanctions on Iran (or Libya), although a U.S. policy review is beginning, and the President might yet alter the U.S. stance. Some in Congress and some outside experts still believe that Iran’s foreign policies have not moderated and that Iran does not merit any further U.S. diplomatic overtures or easing of U.S. sanctions (see below).

Economic Sanctions

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

Terrorism List. Following the October 1983 bombing of the U.S. Marine barracks in Lebanon, believed perpetrated by Iranian allies, Iran was added to the “terrorism list” in January 1984, a designation that bans direct U.S. financial assistance and arms sales, restricts sales of U.S. dual use items, and requires the United States to oppose multilateral lending to the designated countries. For further information on U.S. sanctions on foreign suppliers of arms and technology, see CRS Report RL30551, *Iran: Arms and Technology Acquisitions*.

Counternarcotics. In February 1987, Iran was first designated as a state that failed to cooperate with U.S. anti-drug efforts or take adequate steps to control narcotics production or trafficking. U.S. and U.N. Drug Control Program (UNDCP) assessments of drug production in Iran prompted the Clinton Administration, on December 7, 1998, to remove Iran from the U.S. list of major drug producing countries. The decision exempts Iran from the annual certification process that kept drug-related U.S. sanctions in place on Iran. In late January 1999, Iran allowed the UNDCP to open an office in Tehran. A British cabinet minister visited Iran in February 2001 and said Britain wanted to increase aid to Iran for anti-narcotics activities.

Trade Ban. On May 6, 1995, President Clinton issued Executive Order 12959 banning U.S. trade and investment in Iran, including the trading of Iranian oil overseas by U.S. companies. This followed an earlier March 1995 executive order barring U.S. investment in Iran’s energy sector, and, although modified, has been extended each year since. On March 13, 2001, President Bush renewed the declaration of a state of emergency that triggered the March 1995 investment ban. An August 1997 amendment to the trade ban (Executive Order 13059) prevented U.S. companies from knowingly exporting goods to a third country for incorporation into products destined for Iran. The trade ban was partly intended to blunt criticism that U.S. trade with Iran made U.S. appeals for multilateral containment of Iran less credible. Some goods related to the safe operation of civilian aircraft can be licensed for export to Iran, and in December 1999, the Clinton Administration allowed the repair of engine mountings on seven Iran Air 747's (Boeing). The regulations do not permit U.S. firms to negotiate investment deals with Iran, and, in November 2000, the Office of Foreign Assets Control (OFAC, Department of Treasury) notified U.S. firms that co-sponsoring energy-related conferences with Iran could be interpreted as a violation of the

trade and investment ban. Iran's Oil Minister said in November 2000 that some U.S. firms are under consideration for energy projects in Iran if U.S. sanctions are eased to permit U.S. investment, and three U.S. oil executives met with Iran's Foreign Minister Kharrazi in New York in January 2001.

Following a 1998 application by a U.S. firm to sell Iran agricultural products, and in the context of Clinton Administration and congressional reviews of U.S. unilateral sanctions policies, the Clinton Administration announced in April 1999 that it would license, on a case-by-case basis, commercial sales of food and medical products to certain countries on which unilateral U.S. trade bans are in place (Iran, Libya, and Sudan). Under regulations issued in July 1999, private letters of credit can be used to finance approved sales, but no U.S. government credit guarantees were made available and U.S. exporters were not permitted to deal directly with Iranian banks. Iran says the lack of credit makes U.S. sales, particularly of wheat, uncompetitive. The FY2001 agriculture appropriations (P.L. 106-387), contains a provision banning the use of official credit guarantees for food and medical sales to Iran and other countries on the U.S. terrorism list, except Cuba, although allowing for a presidential waiver to permit such credit guarantees. (In the 107th Congress, S.171, introduced January 24, 2001, would repeal this provision.) President Clinton did not extend credit guarantees, and the Bush Administration has not indicated whether it will do so. According to a report in the *Iran Times* of May 18, 2001, the Securities and Exchange Commission will require companies listed on U.S. exchanges to notify investors about any company investments in countries under U.S. sanctions.

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

The Iran-Libya Sanctions Act (ILSA). The Iran-Libya Sanctions Act (ILSA, H.R. 3107, P.L. 104-172, signed August 5, 1996), a law that sanctions foreign investment in Iran or Libya's energy sector, expires on August 5, 2001. In the House, H.R. 1954 and in the Senate, S. 994 have been introduced. Both bills have attracted majorities as co-sponsors. H.R. 1954 is scheduled for mark-up on June 13. For an extended discussion of ILSA's legislative history, provision, implementation, and options for renewal, see CRS Report RS20871, *The Iran-Libya Sanctions Act (ILSA)*.

Caspian/Central Asian Energy Routes Through Iran. The U.S. trade ban permits U.S. companies to apply for licenses to conduct "swaps" of Caspian Sea oil with Iran, but, as part of a U.S. policy to route Central Asian energy around Iran (and Russia), a Mobil Corporation application to do so was denied in April 1999. In November 2000, Royal Dutch/Shell said it is considering swaps with Iran, although foreign company swap arrangements would not appear to be subject to U.S. sanctions, including ILSA. The Administration continues to oppose, and to threaten imposing ILSA sanctions on, pipeline projects that route Caspian/Central Asian energy through Iran. The Clinton Administration policy was intended to strongly favor construction of a pipeline that would cross the Caspian

Sea and let out in Ceyhan, Turkey (Baku-Ceyhan pipeline), avoiding Iran or Russia. Four Caspian nations (Turkey, Georgia, Azerbaijan, and Kazakhstan) signed an agreement embracing Baku-Ceyhan on November 18, 1999, and support for the project among oil companies and regional governments has gained momentum over the past few months. However, in a possible blow to Baku-Ceyhan, it was reported in late May 2001 that Kazakhstan will ask Totalfina Elf to study construction of an oil pipeline across Iran. Despite U.S. pressure, Turkey and Iran have agreed that, beginning in July 2001, Turkey will import Iranian gas through a new Iran-Turkey pipeline, although there is some doubt that Iran's portion of this line will be ready for operations by that deadline.

On a related front, on December 14, 1998, Iran signed a deal with Royal Dutch/ Shell and Britain's Lasmco to explore for oil in Iran's portion of the Caspian Sea, although legal ownership of the Caspian is in dispute among the states bordering that sea. In August 1998, Iran proposed another \$400 million pipeline linking Azerbaijan with Iran's pipeline grid at Tabriz. In March 2001, Iran announced that it had signed a \$226 million contract for a consortium, led by Sweden's GVA Consultants, to explore for oil in Iran's portion of the Caspian Sea. (See CRS Report 98-86, *Iran: Relations With Key Central Asian States*.)

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

The resolution of the "Rushdie affair" to Britain's satisfaction sparked improved relations between it and Iran. Iran continues to maintain that Ayatollah Khomeini's 1989 death sentence against author Salman Rushdie cannot be revoked (his "Satanic Verses" novel was labeled blasphemous) because Khomeini is no longer alive to revoke it. However, on September 24, 1998, Iran's Foreign Minister pledged to Britain that Iran will not seek to implement the sentence and opposes the offering of a bounty for his death. Britain then agreed to upgrade relations with Iran to the ambassadorial level, and Iran's Foreign Minister visited Britain January 10-11, 2000. In October 2000, the United Kingdom began extending longer term credit (two years or greater) for exports to Iran. Britain's Foreign Secretary Robin Cook has since planned a visit to Iran on a few occasions but has cancelled each time, primarily in an expression of displeasure at developments in the case of the 13 Jews. Some Iranian clerics (outside the formal government structure) have said the death sentence stands and that the Iranian government has not required the Fifteen Khordad foundation to withdraw its \$2.8 million reward for Rushdie's death. Khatemi said on June 4, 2001 that he considers the issue closed.

In August 1999, Japan's Foreign Minister continued a gradual improvement in relations with Iran by visiting that country and announcing that Japan would resume its official development lending program for Iran to construct a hydroelectric dam over the Karun River. However, the \$70 million increment announced was less than Iran had wanted, and Japan said that this tranche would close out Japan's involvement in the project. (In 1993, Japan provided the first \$400 million tranche of the overall \$1.4 billion official development loan program, but the lending was subsequently placed on hold as the United States sought to persuade its allies to pressure Iran.) In late January 2000, Japan agreed to resume medium- and long-term (two years or longer) export credit insurance for exports to Iran, suspended since 1994. Economic relations accelerated with Khatemi's November 2000 visit to Tokyo, during which Japan announced it would provide insurance coverage for over \$500 million in private sector projects (construction or refurbishment of steel and petrochemical plants). The visit also resulted in Iran's agreement to grant Japanese firms the first right to negotiate to develop the Azadegan field, although Japan has told the United States that none of its firms will finalize agreements with Iran until ILSA expires. Nonetheless, press reports suggest that Royal Dutch/Shell might join Japanese firms in developing Azadegan. Partly at U.S. urging, Japan refused to extend to Iran new official loans for a railway project to Central Asia. Japan agreed to prepay Iran \$1 billion per year for the next 3 years for guaranteed supplies of Iranian oil.

During 1994-1995, and over U.S. objections at the time, Iran's European and Japanese creditors rescheduled about \$16 billion in Iranian debt. These countries (governments and private creditors) rescheduled the debt bilaterally, in spite of Paris Club rules that call for multilateral rescheduling and International Monetary Fund (IMF) involvement. Iran has worked its external debt down from \$32 billion in 1997 to \$7.8 billion as of April 2001, according to Iran's Central Bank. Iran plans to pay off about half of that remaining debt by March 2002. In early 1999, after more than a year of low oil prices, Iran renegotiated payments of \$3 billion in debts to Japanese, German, and Italian creditors. The improved debt picture has led most European export credit agencies, including Germany's Hermes, France's COFACE, and that of Spain, to restore insurance cover for exports to Iran. In October 1999, Dutch banks extended \$2 billion in credits to investors in Iran. In July 2000, Germany increased its export insurance cover from \$100 million to \$500 million in conjunction with Khatemi's visit there. Higher oil prices in 2000 caused Moody's Investors' Service to raise the rating on Iran's external debt.

Multilateral Lending to Iran. Section 1621 of the Anti-Terrorism and Effective Death Penalty Act of 1996 (P.L. 104-132) amended the Foreign Assistance Act to require the United States to vote against international loans to countries on the U.S. terrorism list. Acting under provisions of successive foreign aid laws, in 1993 the United States voted its 16.5% share of the World Bank against loans to Iran of \$460 million for electricity, health, and irrigation projects. To signal opposition to international lending to Iran, the FY1994 foreign aid appropriations act (P.L. 103-87) cut the Administration's request for the U.S. contribution to the World Bank by the amount of those loans. That law, the FY1995 foreign aid appropriation (P.L. 103-326), and the FY1996 foreign aid appropriations (P.L. 104-107), would have significantly reduced U.S. payments to the Bank if it had provided new loans to Iran. The legislation reportedly contributed to the Bank's refusal to approve any new lending to since then. By 1999, Khatemi's professed moderation had led the World Bank to consider new loans.

In May 2000, the United States was unsuccessful in obtaining further delay on the vote, and its allies outvoted the United States to approve \$232 million in loans to Iran for health and sewage projects. Twenty one of the Bank's twenty four governors voted in favor, and France and Canada abstained. Earlier, Iran also had asked the International Monetary Fund for about \$400 million in loans (its quota is about \$2 billion) to help it deal with its trade financing shortfalls. However, Iran balked at accepting IMF conditionality, and discussions broke off. On May 10, 2001, the World Bank's executive directors voted, over U.S. objections, to approve a two-year economic reform strategy for Iran that envisions \$775 million in new Bank loans. Voting on the actual loans is expected in the spring of 2002. On May 8, 2001, the World Trade Organization, at U.S. urging, postponed until July 2001 a discussion on whether to launch entry talks with Iran.

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

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

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

Regarding the mistaken U.S. shutdown on July 3, 1988 of an Iranian Airbus passenger jet, on February 22, 1996, the United States, responding to an Iranian case before the International Court of Justice (ICJ), agreed to pay Iran up to \$61.8 million in compensation (\$300,000 per wage earning victim, \$150,000 per non wage earner) for the 248 Iranians killed in the shutdown. The funds for this settlement came from a general appropriation for judgments against the United States. The United States previously paid \$3 million in death

benefits for 47 non-Iranians killed in the attack, but has not compensated Iran for the airplane itself. A different case, pending before the ICJ, involves an Iranian claim for damages to Iranian oil platforms during U.S. naval clashes with Iran in October 1987 and April 1988.

Related Issues. Use of U.S. passports for travel to Iran is permitted, but a State Department travel warning, softened somewhat in April 1998, asks that Americans “defer” travel to Iran. Iranians entering the United States are fingerprinted, although Secretary Albright implied in her March 17, 2000 speech that this practice would be eliminated. U.S. regulations do not bar disaster relief and the United States donated \$125,000, through relief agencies, to help victims of two earthquakes in Iran (February and May 1997).

Military Containment

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

Iran’s Opposition Movements

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

Since the late 1980s, the State Department has refused contact with the People’s Mojahedin Organization of Iran (PMOI) and its umbrella organization, the National Council of Resistance (NCR). It was designated as a foreign terrorist organization in October 1997 under the Anti-Terrorism and Effective Death Penalty Act of 1996. On October 8, 1999, the PMOI’s umbrella organization, the National Council of Resistance (NCR), was designated an alias of the PMOI, subjecting it to the same restrictions as apply to the PMOI (no visits by its members to the United States, seizure of its U.S. assets, and a ban on U.S. resident contributions to the group). The State Department’s annual terrorism review, issued in April 2000, cited several PMOI attacks on Iran as justifying Iran’s claim that Iran is a victim of terrorism. Many in Congress appear to differ with the Administration view of the group and majorities in Congress have occasionally signed letters asking the Secretary of State to explore the possibility of working with the PMOI against Iran. On October 11, 2000, a letter

signed by 225 House Members and 28 Senators was released, calling for support for the NCR and deploring Iran's human rights record.

Among its recent activities in Iran, the PMOI claimed responsibility for assassinating a senior Iranian military officer in Tehran in April 2000. The United States condemned the killing. The PMOI claimed responsibility for a mortar attack on the presidential palace on February 6, 2000; Khatemi was not hurt. On March 13, 2000, the PMOI claimed responsibility for launching a mortar attack in Tehran, although it missed its target and hit an apartment complex. In August 2000, the PMOI claimed responsibility for a mortar attack on an army base in Tehran, and the group's supporters in Iran have been putting up posters of the group's leaders, Masud and Maryam Rajavi. On January 21, 2001, the PMOI claimed responsibility for a rocket attack on a court in Tehran, and, on February 20, 2001, its Iraq-based military arm made a brief incursion into Iran, clashing with local security forces. Iran's agents and military forces frequently retaliate against the group's personnel and facilities in Iraq. Seven alleged members were arrested in Los Angeles in March 2001 for allegedly raising money for the organization, and subsequently were indicted. (See CRS Report 97-961, *Iran: The People's Mojahedin Organization of Iran.*)

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