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## The Persian Gulf: Issues for U.S. Policy, 1999

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## **ABSTRACT**

This CRS report is an annual analysis of current issues for U.S. policy toward the volatile Persian Gulf region. The paper discusses the threats to U.S. interests from Iran and Iraq, attempts by the Gulf states to cope with internal and external threats to their stability, and U.S. responses to the threats posed by Iran and Iraq. The paper will be revised annually, and updated as necessary to reflect regional or economic developments. See also CRS Issue Brief 92117, *Iraqi Compliance With Ceasefire Agreements*, and 93033, *Iran: Current Developments and U.S. Policy*.

# The Persian Gulf: Issues for U.S. Policy, 1999

## Summary

The Persian Gulf region contains both challenges and opportunities for the United States in 1999. Since October 1997, the United States and its partners on the United Nations Security Council have faced repeated crises with Iraq over its failure to cooperate with U.N.-mandated disarmament efforts. As 1998 ended, U.N. weapons inspectors from the U.N. Special Commission on Iraq (UNSCOM) reported that they were unable to perform their disarmament mission. They left Iraq just prior to a 70 hour U.S./British bombing campaign against Iraqi sites that could be used to reconstitute weapons of mass destruction (WMD). The United States termed the bombing campaign (Operation Desert Fox) successful in setting back Iraq's missile program and its ability to threaten its neighbors, but this action left the U.N. Security Council divided over how to encourage Iraq to allow UNSCOM back into the country. Although hampered in its mission, UNSCOM was viewed by most experts as the most effective means of determining whether or not Iraq is reconstituting banned WMD programs.

The prospects for Iran and the United States to end twenty years of hostility have improved since the unexpected election in May 1997 of a relative moderate, Mohammad Khatemi, as President. However, Khatemi faces opposition internally from those who subscribe to the radical principles of the Islamic revolution. In part because of that internal opposition, a rapid and significant improvement in U.S.-Iran relations has proven elusive. Khatemi has refused a longstanding U.S. offer to begin a political dialogue, but he has approved increased people-to-people contacts as a means of rebuilding trust between the two countries. Iran's government did not take up a June 1998 offer by Secretary of State Madeleine Albright to engage in mutual confidence-building measures with Iran that could provide a "roadmap" to normal relations. The Clinton Administration apparently is waiting for the infighting in Tehran to subside before renewing its overtures, although it did, in December 1998, remove Iran from the list of major drug producing countries. This move was interpreted by some in Congress as a concession to Iran.

U.S. efforts to contain the potential threats from Iran and Iraq continue to depend on close alliances with the Persian Gulf monarchy states and on continuing political stability there. Facing internal sympathy for the plight of the Iraqi people, some of the Gulf states have begun to grow more cautious in their support of U.S. efforts to compel Iraq to comply with all applicable U.N. resolutions. Saudi Arabia refused to allow U.S. combat aircraft to fly from Saudi bases to strike Iraq in Operation Desert Fox. The Gulf states, faced with low oil prices since 1997, also are worried about potential political unrest that might result from cutting back the generous social benefits they offer their citizens. To compensate for falling prices, Saudi Arabia, Kuwait, and Qatar are opening their energy sectors to increased foreign investment. All the Gulf states are curbing their appetite for new arms purchases. Although not under significant pressure to do so, some of the Gulf states continued gradual moves to open their political system, in part to spread the burden of difficult political and economic choices.

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# The Persian Gulf: Issues for U.S. Policy, 1999

The Persian Gulf region, rich in oil and gas resources but with a history of armed conflict and political instability, remains crucial to United States interests. This report, which will be revised annually, discusses current issues and problems that confront the United States in its attempts to maintain stability in the Gulf. For further reading, see CRS Issue Brief 92117, *Iraqi Compliance With Ceasefire Agreements*; Issue Brief 94049, *Iraq-U.S. Confrontations*; Issue Brief 93033, *Iran: Current Developments and U.S. Policy*; and Issue Brief 93113, *Saudi Arabia: Post-War Issues and U.S. Relations*.

## Threats and U.S. Interests in the Gulf

Iran, Iraq, and the six Gulf monarchy states that belong to the Gulf Cooperation Council (GCC, Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and Oman) contain about two thirds of the world's proven reserves of oil. Saudi Arabia and Iraq are first and second, respectively, in proven reserves of oil and Iraq, which is largely unexplored, might ultimately contain more oil than does Saudi Arabia. Iran and Qatar, respectively, have the second and third largest reserves of natural gas in the world; gas is an increasingly important source of energy for Asian and European countries. Difficulties in the discovery and transportation of oil and gas from the Central Asian/Caspian countries ensure that the Gulf will be a major source of energy well into the 21<sup>st</sup> century.

The region is home to both Iran and Iraq, countries that have threatened U.S. interests directly and indirectly. Iran and Iraq fought each other during 1980-1988, but both have also fought the United States. Iran and the United States fought minor naval skirmishes during 1987-88, the height of the Iran-Iraq war — a war in which the United States tacitly backed Iraq. During one such skirmish (*Operation Praying Mantis*, April 18, 1988) the United States fought a day long naval battle with Iran that destroyed almost half the Iranian fleet. The United States fought Iraq in the 1991 Gulf war to liberate Kuwait, which Iraq had invaded and occupied in August 1990. That war cost the United States armed forces 148 killed in action and 138 non-battle deaths, along with 458 wounded in action. The 1991 Gulf war cut Iraq's conventional military capabilities approximately in half, but Iraq is still superior to Iran and the Gulf states in ground forces. Iraq fielded the sixth largest air force prior to the Gulf war, but now has only about 170 operational combat aircraft — mostly older Russian-made MiG-23's and MiG 25's and French-made Mirages, according to the International Institute of Strategic Studies.

Both Iran and Iraq have developed weapons of mass destruction (WMD) programs. Iraq's missile, chemical, nuclear, and biological programs, begun during the Iran-Iraq war, were among the most sophisticated in the Third World at the time of Iraq's invasion of Kuwait. During the 1991 Gulf war, Iraq fired 39 Scud missiles

at Israel, a U.S. ally, and about 50 missiles on targets in Saudi Arabia. One Iraqi missile, fired on coalition forces on February 25, 1991 (during Desert Storm) hit a U.S. barracks near Dhahran, Saudi Arabia, killing 28 military personnel and wounding 97. During the Iran-Iraq war, Iraq fired enhanced Scud missiles at Iranian cities,<sup>1</sup> and it used chemical weapons against Iranian troops and Kurdish guerrillas and civilians. Iran's WMD programs, which are not under international restrictions like those on Iraq, have made significant strides during the 1990's with substantial help from Russia, China, North Korea, and other countries. In July 1998, Iran tested its Shahab (Meteor) 3 ballistic missile (800-900 mile range), which could enable Iran to threaten Israel, Turkey, and parts of Central and South Asia.

Both Iran and Iraq are on the U.S. list of state sponsors of terrorism, although Iran has been considered a more substantial terrorist threat than Iraq. The Islamic regime in Iran, which came to power in February 1979, held American diplomats hostage during November 1979-January 1981, and the pro-Iranian Lebanese Shia Muslim organization Hizballah held Americans hostage in Lebanon during the 1980s. Since then, Iran has supported groups (Hizballah and the Palestinian groups Hamas and Palestinian Islamic Jihad) opposed to Israel and the U.S.-sponsored Arab-Israeli peace process.

Iran also has supported radical Shia Muslim fundamentalist movements in the Gulf, which have posed threats to political stability in Saudi Arabia and Bahrain over the past four years. Press reports suggest Saudi investigators hold Iran at least indirectly responsible for the June 1996 bombing of the Khobar Towers housing complex for U.S. military officers, in which 19 U.S. airmen were killed.

The Gulf states face internal threats not attributable to Iran or Iraq. All six Gulf states — Saudi Arabia, Kuwait, Bahrain, the United Arab Emirates, Oman, and Qatar — are hereditary monarchies with few, if any, formal institutions for popular participation in national decisionmaking. Some of them, including Saudi Arabia and the United Arab Emirates, are undergoing leadership transitions, and Bahrain's leadership passed to a new generation in March 1999 when the long serving Amir died suddenly. Since the early 1970s, the Gulf states have channeled their oil wealth into infrastructure development and generous social benefits, such as free higher education and subsidized housing. The decline in oil prices since early 1998 has left the Gulf states with the difficult choices of cutting benefits and risking unrest, or trimming other programs, such as defense acquisitions that are vital to their security. To help deflect the burden of choosing among unpalatable alternatives, some of the Gulf states have begun to gradually open up the political process, although not to the point where Gulf state citizens can peacefully change their leadership.

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<sup>1</sup> The missiles were supplied by Russia but Iraq enhanced their range to be able to reach Tehran, which is about 350 miles from the Iraq border. The normal range of the Scud is about 200 miles. In order to accommodate the greater range, however, Iraq had to reduce the warhead payload by half, from 2,200 pounds to 1,100 pounds.

## **Iraq: U.S. Efforts to Contain and End the Threat**

Iraq is openly challenging U.S. and U.N. efforts to obtain full Iraqi compliance with postwar U.N. resolutions. The United States and Iraq began a state of almost constant confrontation in October 1997 when Iraq, out of frustration at its failure to achieve any easing of seven years of comprehensive U.N. sanctions, began openly defying the efforts of U.N. weapons inspectors (UNSCOM) to clear up remaining questions about Iraq's prohibited WMD programs. In response to Iraq's refusal to fully cooperate with UNSCOM, in February 1998 and again in November 1998, the United States built up forces in the Gulf and went to the brink of military action against Iraq. In both of those cases, airstrikes were averted -- in the first case through mediation efforts by U.N. Secretary-General Kofi Annan, and, in the latter case, through Iraq's acceptance of a U.S. ultimatum.

Iraq's continued obstructions of UNSCOM finally provoked U.S. airstrikes, despite opposition by France, Russia, and China to the use of force. After a month of testing Iraq's November 14, 1998 pledge of full cooperation, UNSCOM Executive Chairman Richard Butler told the U.N. Security Council that Iraq continued to obstruct to its work. On December 16, Butler withdrew all UNSCOM staff from Iraq and, that evening, the United States and Britain began a 70-hour bombing campaign (Operation Desert Fox, December 16-19) against military installations and industrial facilities that can be used to restart WMD programs. The United States and Britain claimed that 85% of the approximately 100 sites targeted suffered damage, some of them were destroyed completely. On January 8, 1999, the leader of the operation, commander of U.S. Central Command (CENTCOM) Gen. Anthony Zinni, said Desert Fox had set back Iraq's missile programs by two years.

Some believe that Operation Desert Fox might ultimately prove counterproductive to U.S. efforts to maintain containment of Iraq. Iraq refuses to allow UNSCOM back into Iraq to resume its work, leaving open the possibility that Iraq might begin rebuilding its WMD programs. (See appendix on UNSCOM's record and disarmament issues still outstanding.) The United States says it will strike Iraq if Iraq rebuilds prohibited weapons programs, but most outside experts believe that UNSCOM's ability to detect Iraqi WMD violations is greater than that of the United States, which lacks on-the-ground personnel in Iraq and must rely on remote intelligence collection methods.

Immediately after the Operation, France and Russia advanced proposals to restructure UNSCOM's mission and/or composition to encourage Iraq to accept some level of U.N. weapons control. The United States opposes the French and Russian efforts, preferring instead to insist on returning to UNSCOM its original mission in Iraq. No Security Council permanent member is satisfied with a total absence of international monitoring of Iraqi WMD capabilities, and the Council will likely continue to debate the issue until it achieves a consensus on how to restart a WMD control program. The Council took one step toward that goal in late January 1999 by authorizing the convening of a disarmament panel, composed mostly of UNSCOM and International Atomic Energy Agency (nuclear issues) experts, to review all aspects of Iraqi disarmament and report back to the Council by April 15, 1999. The panel might make visits to Iraq if Iraq agrees to cooperate with its work. Two other

panels, one on the humanitarian situation in Iraq and one on Kuwaiti missing persons and property, also were formed.

The United States also is attempting to stave off French and other calls for the lifting of sanctions on Iraq. France asserts that lifting sanctions will provide Iraq with enough incentive to agree to allow a WMD monitoring program to resume. The United States opposes that position on the grounds that lifting sanctions will enable Iraq to generate and control enough revenue to reconstitute its armed forces and its WMD programs, even if the international ban on arms exports to Iraq remains in place. As a response to the French proposal, the United States has proposed that the U.N. "oil-for-food" program (U.N. monitored sales of \$5.26 billion in Iraqi oil every six months in exchange for humanitarian purchases) be expanded. Doing so would ensure that Iraq's oil revenues continue to be controlled by a U.N. escrow account, and cannot therefore be used for illicit weapons or other purposes.

As part of a broad pattern of post-Desert Fox defiance, Iraq declared in late December 1998 that it would challenge U.S. and British enforcement of "no-fly zones" in northern and southern Iraq. Iraq has never accepted the legitimacy of the no fly zones, because they were not specifically authorized by any U.N. resolutions, but it has only challenged enforcement during periods of crisis with the United Nations or United States. The United States asserts that no fly zone enforcement is a legitimate operation to monitor Iraq's compliance with Resolution 688 (April 5, 1991), which demands that Iraq cease repressing its population (the Kurds in the north and Shia Muslims in the south). In over 100 incidents since Desert Fox, the United States has struck Iraqi air defense sites and related equipment in the northern and southern no fly zones (see map appendix for depiction of the no fly zones) in response to Iraqi attempts to target U.S. and British aircraft patrolling the zones, or in response to Iraqi air incursions into the zones. In early March 1999, the United States claimed to have destroyed about 20% of Iraq's air defense network since Desert Fox.

**Eroding Regional Containment.** Even though Iraq is defying Security Council resolutions, some of Iraq's neighbors believe that it has been disarmed to the point at which it no longer poses a major threat. The neighboring states have expressed concern about the plight of the Iraqi people under more than eight years of comprehensive international sanctions (import and export embargo, with selected exceptions, as well as a ban on flights to or from Iraq). Even Saudi Arabia, which was directly threatened by Iraq's invasion of Kuwait in 1990, is now asking that restrictions on the oil for food program be eased. Among other motivations, some of Iraq's neighbors seek an easing of sanctions to provide them with additional trade outlets while others want to rehabilitate Iraq as a counterweight to Iran and/or Israel. Whatever the motivations, the following improvements in Iraq's relations with regional states have caused some to question whether U.S. efforts to contain Iraq will succeed over the long term.

- In February 1998, at the height of one crisis with Iraq over UNSCOM inspection privileges, the Foreign Minister of Qatar visited Baghdad in an attempt to mediate an end to the crisis. This represented the first visit by a Gulf state Foreign Minister to Iraq since the Gulf war.



- In April 1998, Iraq and Iran completed their largest prisoner exchange since the end of the Iran-Iraq war in August 1988 (5,600 Iraqi prisoners were exchanged for 380 Iranian prisoners). This exchange helped clear a major hurdle to further improvement in their relations. During 1998, Iran, or factions within Iran, also continued to help Iraq smuggle at least \$10 million per month worth of petroleum products out of the Gulf. In August 1998, Iranian visitors began visiting Shiite Muslim holy sites in southern Iraq for the first time since the February 1979 Iranian revolution. Iran publicly opposed Desert Fox.
- In July 1998, longtime adversaries Syria and Iraq agreed to reopen the Iraqi oil pipeline that crosses Syria and lets out at Syria's Mediterranean port of Banias. Iraq said in February 1999 that Iraq's portion of the line is nearly repaired. The pipeline has been closed since 1982, when Syria forged an alliance with Iran against Iraq during the Iran-Iraq war. (Syria also participated in the coalition that expelled Iraq from Kuwait in 1991.) In 1997, the two reopened their common border and Syria began exporting goods to Iraq under the U.N.-sponsored "oil-for-food" program. The reopening of the pipeline might require an amendment to U.N. Security Council Resolution 986 (April 1995) and the May 1996 U.N.-Iraq memorandum of understanding that govern the oil-for-food program; these documents mandate that more than half of Iraqi oil exports run through an Iraq-Turkey pipeline and that all oil export routes be monitored by U.N. contract personnel. Whether these understandings will be amended to permit exports through Syria remains to be seen.
- In September 1998, Turkey upgraded its relations with Iraq to the Ambassador level, and Turkey did not allow its Incirlik air base (from which U.S. and British aircraft patrol the northern no-fly zone over Iraq) to be used for Operation Desert Fox airstrikes. Iraq received a further boost from Turkey in mid-February 1999, when the government of Prime Minister Bulent Ecevit received Iraq's Deputy Prime Minister Tariq Aziz. Iraq is pushing to persuade Turkey to end its hosting of U.S./British enforcement of the northern no fly zone from Incirlik. Aziz did not accomplish that objective, but, a few days before Aziz's visit, Turkey's Defense Minister did call for new rules of engagement for northern no fly zone enforcement. The Defense ministry position suggested that Turkey is uneasy with the U.S./British strikes on Iraq's air defense batteries in the northern no fly zone since Desert Fox.
- Also in September 1998, Iraq and Saudi Arabia signed their first trade deal since the Gulf war, under which Saudi Arabia would supply goods to Iraq under the "oil-for-food" program. Saudi Arabia publicly refused to allow Desert Fox strikes from its bases, although it joined other Gulf and Arab states in blaming Iraq for the non-cooperation that brought on Desert Fox. Only Kuwait and Oman allowed U.S./British strikes from their territory during the Operation.
- In October 1998, Lebanon restored diplomatic relations with Iraq after a four year break. That break occurred when Lebanon alleged that Iraqi intelligence had assassinated Iraqi dissidents in Beirut.

- In November 1998, the United Arab Emirates (UAE) inaugurated a new ferry service to take passengers and goods to Iraq, giving Iraq an additional outlet for its people. (Civilian flights into or out of Iraq are banned by post-Kuwait invasion U.N. Security Council Resolution 670.)

**Congressional Views.** Congress has generally supported the Administration throughout the various confrontations with Iraq, although it has often urged even stronger action against Iraq than the Administration appeared ready to take. In particular, Congress has insisted that an element be added to U.S. containment policy -- the overthrow of Saddam Husayn. During the October - November 1997 phase of the crisis, the Senate did not act on a resolution (S.Con.Res. 71) supporting military action because many Senators believed that military action would not end the threat from Saddam Husayn. Many Senators wanted the Administration to adopt policies that would lead to the overthrow of Saddam Husayn. On July 31 and August 3, 1998, respectively, the Senate and House passed a resolution (S.J.Res. 54) that said Iraq is in "material breach" (violation) of the post-Gulf war ceasefire and the President should act accordingly. The President signed the bill (P.L. 105-235) on August 14, 1998, although the Administration did not, at that point, take military action against Iraq. It did not push to persuade the Security Council to declare Iraq in material breach because of anticipated opposition from France, China, and Russia.<sup>2</sup>

Congressional sentiment for a strategy of overthrow of Saddam Husayn culminated in the Iraq Liberation Act, which passed the House on October 5 (360-38) and the Senate on October 7 (unanimous consent). The Act gives the President the discretion to provide up to \$97 million in defense articles and services to Iraqi opposition organizations designated by the Administration. The President signed the bill into law (P.L. 105-338) on October 31, 1998, the same day Iraq cut off all cooperation with UNSCOM, including long term monitoring operations. (*For further information on U.S. support for the opposition, see CRS Report 98-179 F. Iraq's Opposition Movements.*)

On November 14, 1998, President Clinton appeared to take up Congressional recommendations by saying publicly that U.S. policy would work to achieve a change in regime and that he would implement the Iraq Liberation Act. This marked the first time since the Gulf war that the declared policy of the United States has been to seek Saddam Husayn's overthrow, although the United States has worked with opposition groups since 1991. However, Administration officials maintain that they do not want this objective, which is neither sanctioned nor suggested by any U.N. Security Council Resolutions, to interfere with U.S. attempts to maintain a consensus in the Council to contain Iraq. Some other Security Council members maintain that any attempts to interfere in Iraq's internal affairs are unjustified and contrary to international law.

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<sup>2</sup> On seven occasions during 1991-93, the Security Council declared Iraq in material breach of the cease-fire, in principle opening Iraq to allied military action. Military action was not used on all of those occasions, however. The last Council finding of material breach was on June 17, 1993, but Council members have since been reluctant to agree on such a finding because of recent Russian, Chinese, and French opposition to military action against Iraq.

Both the Administration and Congress have highlighted Iraq's human rights record as an additional justification for removing Saddam Husayn from power. Of all the states bordering the Persian Gulf, Iraq is widely regarded as having the worst human rights record; it is termed "extremely poor" in the State Department's human rights report for 1998, released in March 1999. Senior State Department officials have said since 1994 that Iraq might qualify for prosecution in the International Court of Justice under the 1948 Genocide Convention, because of its abuses against Iraq's Kurds during a mass Kurdish relocation in February 1988 (*Anfal campaign*), as well as continuing efforts to deprive Shiite Muslims in the southern marshes (Marsh Arabs) of their way of life. In April 1997, the Administration announced its support for INDICT, an effort by Iraqi oppositionists and human rights activists to document Iraqi war crimes. In November 1997, the House passed H.Con.Res. 137, calling for the President to push for a war crimes tribunal for Saddam and his associates. The Senate passed a similar resolution, S.Con.Res. 78, in March 1998. Under a State Dept. plan submitted pursuant to P.L. 105-174, an FY1998 supplemental appropriation, \$2.17 million is to be spent to analyze, translate, and publicize the several million documents of Iraqi war crimes (now on 176 CD-ROM diskettes) provided by the Kurds or held by the government of Kuwait.

On the other hand, many experts believe that a war crimes tribunal will be difficult if Saddam is not in custody. Some U.N. Security Council members believe that pushing for such a tribunal would provide a disincentive for Iraq to resume cooperation with a U.N. WMD monitoring effort. Some might argue that Iraq's repression of its people also complicates efforts by the Iraqi opposition to organize resistance to Saddam Husayn's government.

## **Iran: U.S. Outreach Amid Continued Concerns**

The year 1998 began amid expectations that the United States and Iran might be able to end twenty years of mutual hostility, but those expectations proved difficult to realize. Foreign policy experts had been arguing for some time that improved relations with Iran could help the United States contain Saddam Husayn's Iraq, reduce the threat to the United States and to the Arab-Israeli peace process posed by Islamic terrorist groups, quell Iran's opposition to a large U.S. military presence in the Persian Gulf region, and possibly, dissuade Iran of the need to acquire weapons of mass destruction. U.S. business interests, meanwhile, argued that improved U.S.-Iranian relations could help open up new energy routes for Caspian/Central Asian energy resources, might benefit U.S. exporters, and could end trade disputes with U.S. allies precipitated by U.S. secondary sanctions legislation.<sup>3</sup> Others maintain that the United States could not and should not isolate a country of over 65 million people, with a location and resources as strategic as those of Iran.

Others, including many Members of Congress, believe that Iran has not addressed U.S. concerns about its international behavior. Easing U.S. sanctions, according to this view, would provide Iran the opportunity to earn increased hard

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<sup>3</sup> For analysis of U.S. sanctions on Iran, see CRS Report 97-231 F. *Iran: U.S. Policy and Options*.

currency that could be channeled into terrorism, conventional weapons, or WMD technology. Some who subscribe to this view believe that Khatemi, despite his professed moderation on some issues, is as committed as were his predecessors to making Iran a great power in the Gulf and expelling U.S. influence from the region.

In May 1997, the Administration took the opportunity presented by the upset presidential election victory of Mohammad Khatemi, a relatively moderate cleric, to shift policy on Iran. U.S. hopes for improved relations had intensified when Khatemi agreed to a special Cable News Network interview on January 7, 1998, portrayed by Iran and CNN as an "address to the American people." However, constrained by revolutionary purists who still hold many of the reins of power in Iran, Khatemi offered only people-to-people contacts with the United States, and rejected the U.S. offer of formal government-to-government ties.

The United States accepted Khatemi's call for informal contacts but the Administration apparently later concluded that this route would not lead to an early breakthrough in relations. On June 17, 1998, in a speech to the Asia Society, Secretary of State Albright proposed that the two countries undertake mutual confidence-building measures that could form a "road map" to eventually normalizing relations. On September 28, 1998, Iranian Foreign Minister Kamal Kharrazi formally responded to the Albright proposal, also in a speech to the Asia Society. Kharrazi continued to rule out direct dialogue and restated Iran's litany of grievances against the United States, including economic sanctions, the holding of Iranian assets, and a history of attempting to manipulate Iranian politics. However, he indicated that the United States and Iran could find areas of cooperation, including counternarcotics, counterterrorism, controlling regional WMD, and promoting a political settlement in Afghanistan.

The Administration also attempted to signal a willingness to improve relations with Iran in several sanctions-related actions during 1998. On May 18, 1998, the Administration waived sanctions under the Iran-Libya Sanctions Act (P.L. 104-172) — on national interest grounds — against three firms (Total SA of France, Gazprom of Russia, and Petronas of Malaysia) that had agreed in September 1997 to develop Iran's South Pars gas field. The Administration maintained that the waiver was not a concession to Iran, but rather an exchange for European and Russian pledges of cooperation to combat Iranian terrorism and to prevent Iran from acquiring WMD technology. Members on Congress opposed to the move said the waiver would open Iran to further energy investments which would have the net effect of improving Iran's financial resources and reducing its isolation. On the other hand, some U.S. energy firms opposed the simultaneous Administration statements that similar waivers would not likely be granted for energy pipeline or other projects that transit Iran as inconsistent with the waiver decision itself.

On December 7, 1998, President Clinton removed Iran from the list of major drug producing countries on the grounds that U.S. assessments indicated that the area under cultivation in Iran had decreased to the point at which it no longer met the threshold for inclusion. Some in Congress criticized the Administration action as an attempt to improve relations with Iran rather than a judgement based on objective criteria, although the decision did not have the effect of easing sanctions on Iran because of duplicate sanctions still in place.

Although not necessarily intended as a positive signal toward Iran, on June 23, 1998, the President vetoed H.R. 2709, the Iran Missile Proliferation Sanctions Act (IMPISA), a bill to mandate sanctions on entities aiding Iran's missile program. The President vetoed the bill the grounds that it would be counterproductive to U.S. efforts to enlist Russian government cooperation in ending this unofficial assistance. In an effort to forestall congressional action to override the veto, on July 28, (one week after Iran's test of its Shahab-3 missile), the Administration amended a previous Executive order (12938, November 14, 1994) to enable it to ban trade with, aid to, and procurement from foreign entities helping WMD programs in Iran or elsewhere. Pursuant to that amendment, the Administration sanctioned seven Russian entities allegedly assisting Iran's Shahab program. On January 12, 1999, the President sanctioned three additional Russian entities believed to be contributing to Iran's missile and nuclear programs. Some observers believe the 106<sup>th</sup> Congress might revive IMPISA if there are further reports of Russian assistance to Iran's missile programs or dramatic Iranian missile breakthroughs, such as a successful test of the 1,250 mile range Shahab-4. Iran's missile progress, and especially North Korea's August 1998 test of its Taepo-Dong missile, has led to an Administration decision, announced in January 1999, to move to develop a national missile defense system.

The Administration faces a number of specific decisions that might signal the future direction of Iran policy. The Treasury Department's Office of Foreign Assets Control (OFAC), which implements and monitors U.S. sanctions, is still reviewing an April 1998 application by Mobil Oil Corp. to conduct swaps of Iranian oil in Central Asia. (In a swap arrangement, oil is imported to Iran for domestic use in northern Iran, while an equivalent amount of oil is exported by Iran through its southern terminals on the Gulf.) No action has been taken on the application. Observers say that, even though a May 1995 Executive order banning trade with Iran allows for applications for oil swaps in Central Asia, the Mobil application will likely not be approved in the near future. A similar application by a smaller Texas-based firm has already been rejected.<sup>4</sup> The Administration also is deciding whether or not to waive ILSA sanctions for a \$1 billion deal between Iran and France's Elf Aquitaine and Italy's ENI to develop Iran's Doroud oil field. The project is likely to receive a national interest waiver because of the implicit U.S. promise in May 1998 to waive ILSA sanctions on all EU firms. Khatemi encouraged further deals during his March 1999 visit to Italy, the first visit by an Iranian head of government since the Islamic revolution.

OFAC is also evaluating an application by a U.S. trading company to ship \$500 million in agricultural products (grain and sugar) to Iran on a cash basis. The application has received support from a bipartisan group of over 30 Senators and House Members, but press reports suggest that the Administration might not act on the application for quite some time. No pressing humanitarian need in Iran would justify approving the application, but some policymakers believe approving the sale would signal U.S. goodwill toward Khatemi. A long delay in acting on the application could essentially kill the deal, even without formal Administration action.

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<sup>4</sup> Lippman, Thomas and David Ottaway. Iran Requests \$500 Million in Food Items. *Washington Post*, January 19, 1999.

**Continued Administration and Congressional Concerns.** Many in both Congress and the Administration, even those highly supportive of a government-to-government dialogue with Iran, appear to believe that signs of progress are mixed on key issues of concern to the international community -- weapons of mass destruction, opposition to the Arab-Israeli peace process, and support for international terrorism. Many observers believe the political infighting in Iran has escalated and that, although Khatemi might prove key to an improvement in relations, the United States should not link its attempted opening to Iran to Mr. Khatemi's political health. In Congress, some Members are urging the Administration not to ease any U.S. sanctions on Iran until there are concrete signs of moderation in its behavior. A February 11, 1999 letter to President Clinton, issued jointly by House International Relations Committee Chairman Benjamin Gilman and the Committee's ranking minority Member Sam Gejdenson, make that recommendation.

A number of divergent and seemingly contradictory trends in Iran's policies complicate U.S. efforts to improve relations with Iran, although the Administration appears to believe that direct engagement with Iran could lead to progress on these issues.

- Khatemi and Foreign Minister Kharrazi have publicly stated Iran's opposition to the use of international terrorism as an instrument of policy, and Iran condemned the August 7, 1998 bombing of U.S. embassies in Kenya and Tanzania, in which Iran does not appear to have been involved. However, despite private assurances to the Palestinian leaders and European governments that Iran would not work to derail the Arab-Israeli peace process, Iran continues to support terrorist groups that use violence to oppose the Arab-Israeli peace process.<sup>5</sup> Khatemi has asserted in several statements that these groups, such as Hamas, Hizbollah, and Palestinian Islamic Jihad are not terrorist groups, but are legitimately fighting against Israeli occupation of Palestinian and Lebanese territory. Iranian leaders, including Khatemi (October 27, 1998 and December 1, 1998) denounced the October 23, 1998 Israeli-Palestinian Wye River accord.
- President Khatemi has attempted, with some success, to change Iran's image in the Gulf from that of an aggressor to a pragmatic neighbor. Saudi Arabia has been particularly receptive to overtures from Khatemi, who is expected to visit the Kingdom later this year. Bahrain, which in 1996 openly accused Iran of attempting to overthrow the ruling Al Khalifa regime, in December 1998 restored full relations with Iran by appointing an Ambassador to Tehran. At the same time, Khatemi's government has reaffirmed Iran's claim to three Gulf islands in dispute between Iran and the United Arab Emirates. Iran also has continued its program of naval exercises in the Gulf, which appear intended to intimidate the Gulf states.
- Khatemi, despite his outreach to Iran's neighbors, has not sought to curb Iran's WMD programs. All factions in Iran appear to agree on the need to continue

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<sup>5</sup> U.S. Department of State. Report to Congress on Iran-Related Multilateral Sanctions Regime Efforts. December 14, 1998.

developing these programs, although there are factional differences over the degree to which Iran should cooperate — or appear to cooperate — with international anti-proliferation regimes.

- Iran allows the International Atomic Energy Agency (IAEA) to conduct regular inspections of declared facilities, but it has not yet accepted an enhanced system of safeguards that would provide greater ability to detect undeclared facilities. Iran's neighbors, as well as the United States, remain suspicious of Iran's insistence on proceeding with Russia's completion of the nuclear power reactor at Bushehr, on Iran's southern coast, and its exploration of additional nuclear deals with Russian institutes.<sup>6</sup> (*For further information on Russia-Iran cooperation on weapons of mass destruction, see CRS Report 98-299 F, Russian Missile Technology and Nuclear Reactor Transfers to Iran.*)
- Iran is a party to the 1972 Biological and Toxin Weapons Convention, and it was an original signator to the 1993 Chemical Weapons Convention. Iran's Majlis (parliament), ratified the CWC in June 1997, one month after Khatemi was elected, and it has made required declarations under the CWC. In February 1999, Iran allowed the Organization for the Prohibition of Chemical Weapons (OPCW), the CWC monitoring body, to visit Iran's declared chemical facilities. Despite Iran's cooperation with the CWC thus far, Iranian officials linked to Khatemi reportedly have been recruiting Russian scientists to work in Iran on its biological program.<sup>7</sup>
- During 1998, Iran's ballistic missile program made significant strides, with Russian help. On July 22, 1998, Iran tested the Shahab (Meteor-3) medium missile, which is based on North Korean Nodong missile technology and has a reported range of 800-900 miles. U.S. officials say it is unclear whether or not the test was successful. On February 7, 1999, Iran announced publicly that it would soon conduct an engine test of the even longer range Shahab-4 (1,250 mile range), which Iran said was intended to launch a satellite. Iran has long planned to buy and launch its Zohreh (Venus) telecommunications satellite, but a *Jane's Defence Weekly* analyst believes that the Shahab-4 does not appear suitable for a satellite launch.<sup>8</sup> Iran's unexpectedly rapid missile progress already has bolstered the conclusion of the July 15, 1998 congressionally-mandated "Rumsfeld Commission" report that concluded that Iran "now has the technical capability and resources to demonstrate an ICBM-range ballistic missile.....within five years of a decision to proceed— whether that decision has already been made or is yet to be made."<sup>9</sup> The Director of Central Intelligence George Tenet warned that Iran's missile program is making progress, but he did

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<sup>6</sup> Russia to Continue Iran Cooperation, Minister Says. *Reuters*, January 22, 1999.

<sup>7</sup> Miller, Judith and Broad, William. Iranians, Bioweapons in Mind, Lure Needy Ex-Soviet Scientists. *New York Times*, December 8, 1998.

<sup>8</sup> Ljunggren, David. Iran Missile for Military, Not Civilian Use - Jane's. *Reuters*, February 16, 1999.

<sup>9</sup> Executive Summary of the Report of the Commission to Assess the Ballistic Missile Threat to the United States ("Rumsfeld Commission"). July 15, 1998. P.13.

not completely endorse the Rumsfeld judgment on Iran in testimony before the Senate Arms Services Committee on February 2, 1999. He said it would take Iran "many years" to develop an ICBM-range missile, unless it was able to purchase key components or entire systems abroad.

- President Khatemi has attempted to liberalize social and political life since taking office in late 1997, and the U.N. human rights rapporteur for Iran, Maurice Copithorne, as well as the State Department's human rights report for 1998, credits Khatemi with some progress on these issues. For the first time since the revolution, women have been appointed to judgeships in the judicial system. On February 26, 1999, Iran held elections to 200,000 local positions (mayors, town councils) countrywide, the first attempt to implement democracy on the local level, as provided for in the 1979 constitution. The United States called the elections a "positive development." However, for the first time since 1992, a follower of the Baha'i faith was executed in prison in July 1998. The sect is considered heretical by the ruling clerical regime, and, virtually every year, one or both chambers of Congress has enacted a resolution condemning Iran's treatment of the Baha'is. In January 1999, the Ministry of Intelligence was forced to admit that renegade agents killed five dissidents and writers in late 1998; the admission enabled Khatemi to force out the Minister in February 1999. In September 1998, Iran formally pledged not to implement Ayatollah Khomeini's 1989 death sentence against British author Salman Rushdie, but a quasi-independent foundation has reiterated its commitment to paying a \$2.5 million reward to any Muslim who kills Rushdie.

## **The Persian Gulf Monarchies: Coping With Internal and External Threats<sup>10</sup>**

U.S. attempts to contain the threats from Iran and Iraq depend heavily on cooperation from the Persian Gulf monarchies of the Gulf Cooperation Council (GCC).<sup>11</sup> The United States therefore has a strategic stake in the political stability of the GCC states. Through defense cooperation, the United States has helped the GCC countries face their external threats, but the United States has little ability to influence their economic or internal political decisions, or to insulate them from the effects of low oil prices. Despite the threats they face, the GCC states have proved more durable politically than some scholars have predicted, surviving attempts to subvert them by Iraq (1970s) and Iran (1980s and 1990s), the eight year Iran-Iraq war, the Iraqi invasion and occupation of Kuwait (1990-91), and post-Gulf war unrest and uncertain leadership transitions in a few of the GCC states.

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<sup>10</sup> This section contains contributions from (name redacted), Specialist in Middle Eastern Affairs, Foreign Affairs, Defense, and Trade Division and (name redacted), Specialist in Energy Policy, Resources, Science, and Industry Division.

<sup>11</sup> For further information on the Gulf states, see CRS Issue Brief 93113, *Saudi Arabia: Post-War Issues and U.S. Relations*; and CRS Reports 95-1013 F, *Bahrain*; 95-1071 F, *Oman*; 98-436 F, *United Arab Emirates: U.S. Relations and Prospective F-16 Sale*; and 98-600 F, *Kuwait: Current Issues and U.S. Policy*.



## Domestic Political and Economic Stability

The key domestic threats to GCC political stability, in most cases, come from ethnic, ideological, and sectarian differences in these states. (See appendix on Gulf state population and religious composition.) Since November 1994, Bahrain's Sunni Muslim ruling family has faced several cycles of unrest (demonstrations, occasional rioting) from elements of the Shia Muslim community, which constitutes a numerical majority but feels excluded from national decisionmaking. The ruling Al Khalifa family has resisted opposition demands to restore an elected National Assembly to replace the appointed Consultative Council established after the Gulf war. Although Bahrain has been somewhat calmer since early 1998, the sudden death of Amir Isa bin Salman Al Khalifa on March 6, 1999 could provoke renewed unrest if his son and successor, Hamad bin Isa Al Khalifa, does not begin to address opposition grievances.

Other than Bahrain, Saudi Arabia has been the only GCC state to face significant political unrest since the Gulf war. In Saudi Arabia, there were outbreaks of rioting and demonstrations in the two years after the Gulf war over the regime's perceived deviations from Islamic purity. Several opposition Islamic clerics were arrested. Still at large in Afghanistan is an exiled Saudi opposition figure, Usama bin Ladin. Although not a religious authority, bin Ladin is viewed by some Saudis as a revolutionary Islamic figure who is fighting to expel U.S. troops and civilians from Saudi territory. His network is believed responsible for the November 1995 bombing of a U.S. military training headquarters in Riyadh, in which five Americans were killed. Bin Ladin applauded that attack as well as the more lethal bombing of the Khobar Towers military housing complex near Dhahran, Saudi Arabia in June 1996, in which 19 U.S. airmen were killed. Saudi authorities have suggested to journalists that they believe Shia Muslims linked to Iran were primarily responsible for that attack. There have been no reports over the past few years of any pro-bin Ladin demonstrations inside Saudi Arabia.

Some observers maintain that many Saudis privately agree with bin Ladin's political message that foreign troops and civilians are despoiling sacred Muslim land. Saudi government concerns about such sentiment might explain why Saudi Arabia has refused, over the past year, to allow U.S. combat aircraft to strike Iraq from Saudi Arabia.<sup>12</sup> Bin Ladin's asserts that the Saudi regime is a vassal state of the United States and that it allows Saudi territory to be used for U.S. aggression against oppressed Muslims (in Iraq).

The challenge from bin Ladin comes amid a leadership transition in Saudi Arabia. King Fahd suffered a stroke in November 1995 and he has increasingly withdrawn from day-to-day governance. His heir apparent is Crown Prince Abdullah who, like Fahd, is about 75 years old. Abdullah is perceived as somewhat more willing than Fahd to question U.S. policy in the region and U.S. prescriptions for Saudi security.

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<sup>12</sup> Jehl, Douglas. U.S. Fighters in Saudi Arabia Grounded. *New York Times*, December 19, 1998.

The other Gulf states appear stable for now. The UAE is in transition from Shaykh Zayid bin Sultan al-Nuhayyan, a founder of the UAE federation in 1971, to his son, Crown Prince Khalifa. However, the UAE is well placed to weather this transition because it has faced the least unrest of any of the Gulf states. In June 1995, the current ruler of Qatar, Shaykh Hamad bin Khalifa Al Thani, overthrew his father in a bloodless coup to become leader of that Gulf state; most of his father's supporters quickly lined up behind the new Amir. Although the Amir accused his father and other GCC states of attempting a countercoup in early 1996, the Amir and his father reconciled to some extent in late 1996. In Kuwait, Islamic fundamentalist opposition to the ruling Al Sabah family is contained within the context of Kuwait's elected National Assembly — virtually no anti-regime violence has occurred there since the Gulf war. Oman has also appeared relatively tranquil over the past four years, but there is no heir apparent or clear successor to Sultan Qaboos bin Said Al Said, who is about 60 years old.

Some of the Gulf states are attempting to ensure political stability through a gradual opening of the political process. In the context of falling oil prices, Gulf leaders say that economic decisions are becoming increasingly difficult, creating the need to spread the burden of national decisionmaking. This is a trend the United States has encouraged since the 1991 Gulf war, although U.S. Embassy officers in the region imply that this issue is subordinate to that of defense and security issues.

Kuwait, Qatar and Oman have been at the forefront of political liberalization in the Gulf. Kuwait, which revived its National Assembly in 1992 and still has the only elected Assembly in the Gulf, began televising Assembly meetings in February 1999. However, there has been no recent movement on female suffrage there. On March 8, 1999, Qatar held elections to a 29-member municipal affairs council. In a first in the Gulf, women were permitted full suffrage and 6 women are ran as candidates (all six lost). In late 1998, the Amir of Qatar announced that a constitution would be drafted providing for an elected National Assembly to replace the appointed 35-member consultative council in place since independence in 1971. On February 23, 1999, House International Relations Committee Chairman Gilman introduced H.Con.Res. 35 congratulating Qatar on its holding of the municipal elections. Sultan Qaboos of Oman has told visitors to Oman that the next consultative council, to be chosen in late 2000, will probably be directly elected. Two women were popularly nominated and handpicked by the Sultan to serve in each of the previous two councils, chosen in 1994 and 1997. The Gulf Cooperation Council, as a body, formed a consultative council that held its first meeting in November 1998.

In the other Gulf states, political liberalization has been somewhat slower. Saudi Arabia expanded its national consultative council to 90 seats from 60 in 1997, but it continues to rule out national elections. As noted above, Bahrain has resisted opposition demands to restore an elected national assembly, although it has expanded slightly the advisory powers of the appointed 40 seat consultative council. The UAE has not moved to at all to broaden the authority of its forty seat advisory Federal National Council. However, the wife of UAE President Shaykh Zayid bin Sultan al-Nuhayyan said on January 31, 1999 that women would participate in the political life of the UAE in the future. A few weeks after that statement, Shaykh Zayid appointed a woman to be undersecretary of the Ministry of Labor and Social Affairs, the first woman to hold such a high-ranking government post.

Despite the move toward political openness in some of the Gulf states, the Administration and many in Congress believe that the Gulf states continue to rely heavily on repression and denial of internationally recognized standards of human rights to maintain political stability. Even the moves toward political liberalization in the Gulf states do not give Gulf citizens the right to peacefully change their government, and the foreign workers on which their economies rely have virtually no political rights at all. Almost all the Gulf states are cited by human rights organizations and U.S. human rights reports for arbitrary arrests, religious discrimination, suppression of peaceful assembly and free expression, and the denial of popular ability to peacefully change the government. Of the Gulf states, Bahrain has come under the greatest criticism from human rights organizations for efforts to suppress the mostly Shia Muslim unrest. In February 1999, Bahrain was reported to be planning to try a prominent opposition Shia cleric, Shaykh Abd al-Amir Jamri, who has been held without trial for more than three years.<sup>13</sup> The Administration, apparently seeking stability, has publicly supported Bahrain's efforts to deal with the unrest.

Congress has been particularly interested in the issue of religious discrimination.<sup>14</sup> The 105<sup>th</sup> Congress enacted the International Religious Freedom Act (P.L. 105-292) which, among other provisions, requires a report to Congress on the status of religious freedom worldwide. Of the Gulf states, only Saudi Arabia actively prohibits the practice of non-Muslim religions on its territory, even in private. In October 1998, a French human rights group put Saudi Arabia at the top of its list of countries that discriminate against Christians.<sup>15</sup> Qatar prohibits public non-Muslim worship but tolerates it in private. In Kuwait, Bahrain, the UAE, and Oman, there are functioning Christian churches and congregations. In January 1999, a Kuwaiti became the first head of a church in the Gulf region; Emmanuel Benjamin al-Gharib was appointed pastor of the National Evangelical Church of Kuwait. Small Jewish communities in some Gulf countries are generally allowed to worship freely.

**Effects of Declining Oil Prices.** Although the Gulf states appear to be coping with domestic political strains, they have been shaken by the steep descent in world oil prices since late 1996. All the Gulf states are highly dependent on oil revenues; Saudi Arabia depends on these revenues for about two thirds of its annual budget. Prices fell throughout 1997 and, in 1998, they converged on a narrow range just above \$10 per barrel. Pricing has improved slightly in March 1999 to about \$14 per barrel for U.S. crude, but the uptick might be temporary. Before the decline, oil had been selling for about \$21 per barrel.

Generally, the 1997-98 price drop decreased GCC export revenues by about one-third. The 1998 revenue drop is chiefly attributable to lower prices; exports volumes remained more or less the same as they were during 1997, consistent with OPEC quota agreements. Iraq is a notable exception, having been permitted to increase exports by U.N. Security Council Resolution 1153 (February 1998) to \$5.26 billion in

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<sup>13</sup> Opposition Says Bahrain to Try Prominent Cleric. *Reuters*, February 12, 1999.

<sup>14</sup> For further information, see CRS Report 98-444 F, *Religious Discrimination in the Middle East*. May 7, 1998, by Alfred Prados.

<sup>15</sup> Saudis Least Tolerant of Christians - Rights Group. *Reuters*, October 22, 1998.

oil every six months, from the previous limit of \$2 billion every six months. This increased ceiling--which Iraq has yet to reach--came at the likely expense of other producer-exporters, who now receive lower prices for roughly the same volume of international sales.

**Table 1. GCC Oil Export Revenue, 1997 vs 1998**  
(\$ billion)

Country	1997	1998	'98 as % of '97
Iran	15.7	10.2	65%
Iraq	4.2	6.1	145%
Kuwait	11.8	7.9	67%
Saudi Arabia	45.5	29.4	65%
Qatar	4.0	3.0	75%
UAE	13.7	9.3	68%
Oman	5.2	3.6	69%

Source: Energy Information Administration (EIA). OPEC Revenue Fact Sheet

With current Gulf crude prices, measured in real or inflation adjusted dollars, at their lowest point in more than a quarter-century, and no immediate sign of price recovery, 1999 export earnings may fall further if Iraqi exports increase to Resolution 1153 maximum levels. Current Iraqi exports are constrained by production bottlenecks stemming from lack of oil field maintenance and equipment, and exports during 1998 never reached the \$10.5 billion limit. While production in Iraq grew by about 1.3 million barrels per day (mbd) during 1998, it remained about one million barrels per day below the amounts which would be called for to realize allowable levels. Were Iraq to have exported such an amount of extra output, it would have likely resulted in single digit oil prices throughout the region and much lower oil revenues for producers everywhere, including Gulf exporters.

The Gulf producers listed in the table below supply about one-quarter of the world's total oil needs. Of the 16.4 mbd Gulf producers exported, 13% -- or 2.1 mbd -- was imported by the United States. During 1998, Gulf petroleum comprised 22% of the nation's 9.4 mbd net imports.

**Table 2. GCC Country Oil Production, Exports, and U.S. Imports, 1998**  
(million barrels per day)

Country	Production	Tot. Exports	US Imports	% to US
Iran	3.6	2.4	0	0
Iraq	2.0	1.4	0.3	21
Kuwait	2.1	1.9	0.3	16
Saudi	8.3	7.1	1.5	21
Qatar	0.7	0.7	nil	nil
U.A.E.	2.3	2.0	nil	nil
Oman	0.9	0.9	nil	nil
<b>Total</b>	<b>19.9</b>	<b>16.4</b>	<b>2.1</b>	<b>N/A</b>

Source: DOE, Energy Information Agency (EIA), OPEC Revenue Fact Sheet. Some figures from supporting EIA data.

An interruption in GCC oil exports would pose very serious problems for the United States. Competition among importers would drive the oil market to reallocate the remaining supply of internationally traded oil so that each importer's shortfall is approximately proportional to the decline in internationally traded crude oil supply. If all 16.4 mbd of this supply were halted, each importing nation would see its imported oil supply drop by about half. Thus, absent new world market supply or some extraordinary arrangement to secure supplies, the United States would see about half of oil imports lost, as world oil market dynamics attempted to equalize the shortfall among importers.

**Responding to the Price Decline.** The oil price decline has forced the Gulf monarchy states to begin addressing longstanding economic weaknesses, including their generous systems of social benefits, and to look for ways to cut their budgets. This is politically risky because of the strong expectation in these countries of generous social welfare benefits. Saudi Arabia cut the defense budget -- the least politically sensitive item in the budget -- by 22% in its fiscal year 1999 budget, announced December 28, 1998.<sup>16</sup> Oman has been forced to raise corporate taxes and impose customs duties on some motor vehicles. Kuwait, where there is strong opposition in the National Assembly to cuts in the generous social welfare benefits, is looking to measures that would preserve benefits for Kuwaiti citizens while imposing utilities user fees or indirect taxation on expatriates. Qatar, which has begun diversifying its economy by developing its large natural gas reserves, is also projecting job cuts in public sector companies. Bahrain is discussing benefit cutbacks, although these could spark new unrest among the historically underprivileged Shia Muslim majority. Only the UAE has been immune to budgetary shortfalls because of large overseas reserve

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<sup>16</sup> May, Barry. First Victim of Saudi Cuts is \$1.7 Billion Arms Deal. *Reuters*, February 9, 1999.

of assets (estimated at \$150 billion) available to tide the government over during periods of low oil prices. Many experts believe the Gulf states should have begun trimming social spending when oil prices were high, thereby avoiding repeated budgetary crises that occur when prices fall.

The price decline could have a salutary affect on some U.S. interests if, as expected, Iran is forced to curtail military or technology imports due to lack of revenues. In early 1999, Iran was forced to seek a rescheduling of \$3 billion in loans from its major creditors (France, Italy, and Japan) to help it cover a growing budget deficit. Iran's budgetary shortfalls could force a slowdown in Russian construction work on the Bushehr nuclear reactor project, for which Iran still owes Russia about three quarters of the original \$800 million contract price. Iran and Russia have expressed firm determination to see the project completed, but work already has been slow due to technical problems, and might not meet Russia's stated completion deadline of 2003.

Some Gulf states have responded to the economic shock by accelerating the process of opening up to the world economy. Low oil prices have led Kuwait and Saudi Arabia to begin discussions with Western oil companies, including several American firms, about further developing their oil and gas reserves. The international firms bring technology and capital that are now in short supply to the Gulf's state-owned oil companies, such as Aramco (Saudi Arabia) and Kuwait Oil Company.

- U.S. firms (Mobil, McDermott International, and M.W. Kellogg), drawing on some U.S. Export-Import Bank assistance, have helped Qatar develop its natural gas resources, and gas exports have already begun. Qatar owns 7% of the world's gas reserves, but it has incurred about \$12 billion in international debt, in part to develop this sector.
- Many U.S. firms, including Texaco, Chevron, Phillips Petroleum, Exxon, and Amoco, as well as major foreign firms, are showing strong interest in a Kuwaiti offer to open its northern oil fields to foreign development investment, valued at about \$7 billion.<sup>17</sup> To blunt opposition in the National Assembly, and to get around a constitutional restriction banning foreign exploitation of Kuwait's natural resources, Kuwait has stressed that, under its development plan, the foreign oil companies would not own the Kuwait oil they produce.
- Saudi Arabia excited U.S. energy industry interest in September 1998 when Crown Prince Abdullah, during a visit to the United States, held talks with seven U.S. energy majors and solicited recommendations about their potential role in exploration and development of Saudi oil and gas fields. The meeting appeared to reverse a policy, in place since the nationalization of the Saudi oil industry in 1975, of keeping the energy sector fully under Saudi state control. Press reports indicate that Texaco, Chevron, Atlantic Richfield (ARCO), Exxon, Conoco, and Phillips have submitted proposals to the Saudi

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<sup>17</sup> Kuwait Hopes Oil Majors Start Local Work in 1999. *Reuters*, January 30, 1999.

government, mostly focused on natural gas development.<sup>18</sup> (The Saudis are reluctant to allow U.S. firms more profitable upstream oil development projects.) On February 5, 1999, Energy Secretary Bill Richardson visited Saudi Arabia to discuss further the opportunities for U.S. energy firms in Saudi Arabia. A Saudi opening of its energy sector has the potential to draw similar investment away from Iran and the Caspian -- an outcome that might be Saudi Arabia's key goal in the policy shift.

- The UAE recently became the first Gulf country to let a contract to a foreign company to build a power plant. CMS Energy Corp. of the United States won the \$700 million project in September 1998.<sup>19</sup> Qatar has invited five international firms, including U.S. companies CMS Energy and AES Energy, to submit proposals to build an independent power plant in Qatar.<sup>20</sup>

The United States is conducting a dialogue with the GCC aimed at broadening U.S.-GCC trade and investment. The Administration believes that increased trade and investment will promote political stability by helping the Gulf states diversify their economies and positioning them to survive oil price declines in the future. U.S.-GCC trade totaled over \$27 billion in 1997, up from only \$9 billion in 1985, the year the U.S.-GCC dialogue began. As of September 1998, U.S. investment in the GCC countries had exceeded \$5 billion and GCC investment in the United States was about \$3 billion. At the September 1998 session of the dialogue, U.S. officials recognized progress by the GCC states in allowing greater percentages of foreign ownership, eliminating the requirement that U.S. firms work through local agents, and protecting intellectual property rights of U.S. companies. The United States said that each GCC country now has laws to protect copyrights, patents, and trademarks, although more enforcement of these laws is needed.<sup>21</sup>

On the basis of this progress, the United States supports the applications of Oman and Saudi Arabia to the World Trade Organization (WTO); the other four GCC states are already members. Since 1994, all the GCC states have relaxed their enforcement of the secondary and tertiary — and in some cases the primary (see below) — Arab League boycott of Israel.<sup>22</sup> This has enabled the Gulf states to argue that they no longer engage in practices that restrain trade (a key WTO condition). However, Saudi Arabia has said it will not necessarily drop its ban on direct trade with Israel if Saudi Arabia enters the WTO.

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<sup>18</sup> Hamilton, Martha and David Ottaway. Saudis Weigh U.S. Firms' Aid On Energy. *Washington Post*, February 6, 1999.

<sup>19</sup> Pearl, Daniel. Saving for Rainy Day Makes Abu Dhabi a Persian Gulf Oasis. *Wall Street Journal*, February 9, 1999.

<sup>20</sup> Sharman, Kedar. Qatar Considering Independent Power Project. *Reuters*, February 15, 1999.

<sup>21</sup> Kalicki: The U.S.-GCC Economic Dialogue -- Past, Present, Future. Statement by Jan Kalicki, Counselor to the Department of Commerce. USIS Washington File, September 29, 1998.

<sup>22</sup> For further information, see CRS Report 92-802 F. *The Arab Boycott of Israel*. November 10, 1992, by Clyde Mark.

## Defense and U.S. Relations

To help meet the external threats they face, the Gulf countries have chosen to stand under a U.S.-led security umbrella. The six countries of the GCC, even if their armed forces were to fight in combination, are outmatched by either Iran or by Iraq, despite international sanctions that ban Iraq from importing new military equipment or spare parts. (See table below) Each GCC country suffers from a shortage of personnel willing to serve in the armed forces or commit to a military career. Defense agreements with the United States are the keys to their security.

**Defense Agreements.** With the exception of Saudi Arabia, the Gulf states have entered into formal defense pacts with the United States, which provide not only for facilities access for U.S. forces, but also for U.S. advice, training, and joint exercises; lethal and non-lethal U.S. equipment prepositioning; and arms sales. (Saudi Arabia has entered into more limited defense procurement and training agreements with the United States). The pacts do not formally require the United States to come to the aid of any of the Gulf states if they are attacked, according to U.S. officials familiar with their contents. Nor do the pacts give the United States automatic permission to strike Iraq or Iran from Gulf facilities — the United States must obtain permission to launch strikes from its Gulf partners on a case by case basis.

Although committed to defense cooperation with the United States, the Gulf rulers do not want to be seen by their populations as vassals of the United States. Gulf leaders say their people are increasingly opposed to what they see as a U.S. desire to punish rather than merely contain Iraq. Over the past year, Saudi Arabia, the UAE, Bahrain and Qatar have refused to allow U.S. strikes on Iraq from their territory in the absence of a clear security threat from Iraq. Qatar's Foreign Minister said during a meeting with Secretary of Defense Cohen on March 9, 1999, said that Qatar does "not wish to see Iraq being bombed daily," referring to the U.S. strikes on Iraq in the no fly zones since December 1998.

Despite growing Gulf concerns about U.S. policy toward Iraq, existing U.S. defense agreements with the Gulf states do not appear threatened. Bahrain has hosted the headquarters for U.S. naval forces in the Gulf since 1948, long before the United States became the major Western power in the Gulf. (During the 1970s and 1980s, the U.S. presence was nominally based offshore.) It signed a separate defense cooperation agreement with the United States on October 28, 1991. In June 1995, the U.S. Navy reestablished its long dormant Fifth fleet, responsible for the Persian Gulf region, and headquartered in Bahrain. It should be noted that no U.S. warships are actually based in Bahraini ports; the headquarters is used to command the 20 or so U.S. ships normally in the Gulf. An April 21, 1980 facilities access agreement with Oman (renewed in 1985 and in 1990) provides the United States access to three Oman airbases, and some Air Force prepositioning. The closeout of U.S. economic aid to Oman as of the end of FY1996 (economic aid was a condition of the original access agreements) has contributed to Omani threats to scale back -- but not cancel -- the access agreements at the year 2000 renewal. Renewal negotiations have already begun, according to U.S. defense officials. Oman has suggested that increased U.S.



military construction funding, for example at a planned airbase, could resolve any disputes over renewal.<sup>23</sup>

Two countries, Kuwait and Qatar, welcome a robust U.S. presence on their soil. Kuwait, which sees itself as the most vulnerable to renewed Iraqi aggression, routinely allows the United States to conduct airstrikes on Iraq from its territory and to station additional air and ground forces in Kuwait during times of crisis. Under a ten year pact with the United States signed September 19, 1991, Kuwait allows the United States to preposition enough equipment to outfit a U.S. brigade, and joint U.S.-Kuwaiti exercises are held several times per year. Since FY1996, Kuwait has contributed about \$350 million per year to defray U.S. costs associated with protecting Kuwait; those contributions are provided for in annual defense appropriations laws. Kuwait also pays two thirds of the \$50 million per year costs of the U.N. peacekeeping operation (U.N. Iraq-Kuwait Observer Mission, UNIKOM) on the Iraq-Kuwait border.

Qatar feels vulnerable to Iran, as well as its larger Gulf neighbor Saudi Arabia, explaining its willingness to draw closer to the United States despite its misgivings about U.S. policy toward Iraq. Qatar, which signed a defense pact with the United States on June 23, 1992, has thus far accepted the prepositioning of enough armor to outfit one U.S. brigade, and the construction of a facility that could, if there were a U.S.-Qatari agreement to do so, accommodate equipment to outfit at least two U.S. brigades. Qatar also is expressing a willingness to host a forward presence for U.S. Central Command, which is based at MacDill Air Force Base in Tampa, Florida, and it has begun allowing U.S. P-3 maritime patrols from Qatar. The United States is currently helping Qatar expand a large air base that could potentially be used to permanently host U.S. aircraft, if there were a joint decision to do so. As has Bahrain, Qatar has hosted several temporary deployments of U.S. Air Expeditionary Forces (about 30 combat aircraft) to cover gaps in U.S. aircraft carrier coverage of the Gulf.<sup>24</sup> On the other hand, since 1998 Qatar has sought to clarify the defense pact in order to gain greater Qatari legal jurisdiction over U.S. military personnel in Qatar, according to observers.

Like Qatar, the UAE does not view Iraq as the only threat that a U.S. presence might help deter. The UAE wants a close relationship with the United States in part to deter and balance out Iranian naval power. Under its July 25, 1994 defense pact with the United States, the UAE allows some U.S. equipment prepositioning, as well as U.S. ship port visits (about 20 dockings per month), at its large man-made Jebel Ali port. It also hosts U.S. refueling aircraft participating in the southern no fly zone enforcement operation. However, concerned about a perceived loss of sovereignty to the United States, the UAE also insisted on a clarification, resolved in mid-1997, of the defense pact's provisions on the legal jurisdiction of U.S. military and other official personnel in the UAE.

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<sup>23</sup> Finnegan, Philip. Oman May Limit U.S. Presence. *Defense News*, December 1-7, 1997.

<sup>24</sup> Finnegan, Phillip. Qatar Seeks Out Closer Military Ties With U.S. *Defense News*, June 22-28, 1998.

**Table 3. Comparative Military Strengths of the Gulf States**

Country	Military Personnel	Tanks	Other Armored Vehicles	Field Artillery		Attack Helicopters	Combat Aircraft	Naval Units	
				Towed	Self-Propelled			Surface Combatants	Submarines
Saudi Arabia	162,500	910	3,055	248	200	45	358	8	0
United Arab Emirates	64,500	231	1,148	46	90	49	49	0	0
Oman	43,500	77	92	91	18	0	47	0	0
Kuwait	15,300	249	456	0	41	20	76	0	0
Qatar	11,800	34	248	12	28	18	18	0	0
Bahrain	11,000	106	411	36	13	26	24	1	0
<i>Total: Allies</i>	<i>308,600</i>	<i>1,607</i>	<i>5,410</i>	<i>433</i>	<i>390</i>	<i>158</i>	<i>572</i>	<i>9</i>	<i>0</i>
Iraq	429,000	2,700	2,900	1,800	150	120	316	2	0
Iran	475,000	1,400	1,025	2,170	290	109	315*	3	3

\* Includes aircraft flown from Iraq to Iran during 1991 Gulf war.

**Source:** International Institute for Strategic Studies, *The Military Balance 1998-1999*. (Note: Figures shown here do not include materiel believed to be in storage and inoperable.)

**U.S. Arms Sales.** A key feature of the U.S. security umbrella over the Gulf has been arms sales to the Gulf states. Since the Gulf war, in part because of the evident security needs and in part because of the development of ties between the Gulf states and Israel, there has been little congressional opposition to U.S. sales to the Gulf states. During 1994-1997, Saudi Arabia and Kuwait were the largest and third largest, respectively, recipients of U.S. arms deliveries.<sup>25</sup> However, both countries appear to be scaling back their arms purchases in response to low oil prices and large budget deficits. Press reports in early 1997 hinted that Saudi Arabia wants to purchase from 24 - 96 Lockheed Martin F-16 fighter aircraft to replace aging U.S. F-5 fighter-bombers, but budgetary shortfalls will likely delay consideration of this buy for at least a few more years. The U.S. Defense Security Cooperation Agency told CRS on February 17, 1999 that, due to a large reduction in Saudi Arabia's arms budget, the

<sup>25</sup> For further information, see CRS Report 98-647 F. *Conventional Arms Transfers to Developing Nations, 1990-1997*. July 31, 1998, by (name redacted).

Saudis are not planning any major new weapons buys in 1999<sup>26</sup>. During his visit to the Gulf in early March 1999, Defense Secretary Cohen offered to sell Saudi Arabia U.S. AIM-120 Advanced Medium Range Air-to-Air Missile (AMRAAM) missiles to outfit U.S. aircraft already in Saudi Arabia's arsenal, although the value and timing of a sale is not known.<sup>27</sup>

In late 1998, Kuwait completed taking delivery of an \$800 million package of 5 Patriot anti-missile firing units. The Kuwaiti government has decided to buy 48 of the U.S. made M109A6 "Palladin" artillery systems, but the \$650 million sale might be delayed by opposition from several National Assembly members who believe that the Palladin is not the best available system and that the purchase represents an attempt to curry political favor with the United States. The Defense Security Cooperation Agency told CRS on February 17, 1999 that Kuwait also will likely buy U.S. AH-64 "Apache" attack helicopters some time in FY1999.<sup>28</sup>

The UAE historically has purchased its major combat systems from France, but UAE officials now believe that arms purchases from the United States enhance the U.S. commitment to UAE security. In May 1998, the UAE announced an intent to purchase 80 U.S. F-16 aircraft, equipped with the AMRAAM, the HARM (High Speed Anti-Radiation Missile) anti-radar missile, and the HARPOON anti-ship missile system. Some in Congress objected to the inclusion of the AMRAAM equipment as the first introduction of that weapon into the Gulf region, but the Administration apparently satisfied that objection by demonstrating that France had already introduced a similar system in an arms deal with Qatar. However, the UAE has not yet finalized the purchase, estimated to be worth \$8 billion (including \$2 billion worth of AMRAAM's) for F-16 contractor Lockheed Martin, because it wants to ensure that the aircraft are equipped with software source codes for their electronic warfare systems. This is sensitive data not normally provided to even the U.S.'s closest NATO allies, which Defense Department officials say cannot be provided.<sup>29</sup> Of the proposed sale, \$2 billion is under the Foreign Military Sales (FMS) program for pilot training, weapons, and other equipment.<sup>30</sup>

Of the other three Gulf states, only Qatar is believed to have the financial resources to make substantial arms purchases from the United States. It has traditionally been armed by France and Britain, but the Foreign Minister said in mid 1997 that it is "probable" that Qatar will buy arms from the United States in the future.

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<sup>26</sup> Fact sheet provided to CRS by Defense Security Cooperation Agency, February 17, 1999.

<sup>27</sup> Aldinger, Charles. Cohen Says U.S. Arms Sales Help Mideast Stability. *Reuters*, March 11, 1999.

<sup>28</sup> Finnegan, Philip. Oil Price, Manpower Crunch Hits Gulf States. *Defense News*, November 9-15, 1998. Factsheet provided to CRS by Defense Security Cooperation Agency, February 17, 1999.

<sup>29</sup> Enginsoy, Umit and Philip Finnegan. New Obstacles Muddy UAE F-16 Purchase. *Defense News*, November 23-29, 1998.

<sup>30</sup> Defense Security Cooperation Agency factsheet, February 17, 1999.

Among the systems under consideration is the Patriot.<sup>31</sup> However, the Defense Security Cooperation Agency does not anticipate any sales to Qatar in FY1999. Oman has said it might select a new fighter aircraft after 2000 and, if it does, it will likely resurrect past consideration of the U.S. F-16. However, with its funds limited over the past few years, Oman has had to refurbish British-built aircraft already in its possession. In 1998, Bahrain chose to purchase 10 F-16's from new production at a value of about \$390 million. The Defense Security Cooperation Agency told CRS on February 17, 1999 that Bahrain would likely purchase AMRAAM missiles in FY1999 to accompany the F-16 purchase. The sale of AMRAAM's to Bahrain, together with associated equipment and training, has a value of about \$110 million.<sup>32</sup>

Bahrain and Oman are the only two Gulf states that receive U.S. security assistance. In FY1999, Bahrain and Oman will each receive about \$225,000 in International Military Education and Training (IMET) funds. For FY2000, the Administration has requested another \$225,000 in IMET for Bahrain, and \$325,000 for Oman. The United States has also tried to assist both countries by providing them excess defense articles (EDA). In 1996, Oman received 30 and Bahrain 60 U.S.-made M-60A3 tanks on a "no rent" lease basis. Since July 1997, Bahrain has taken delivery of a U.S. frigate and a HAWK air defense battery as EDA. In 1994, Oman had to turn down a U.S. offer to grant it a U.S. FFG-7 frigate as an excess defense article (EDA), because of Oman's concerns about its financial ability to maintain and man the ship.

**Joint Security/Theater Missile Defense.** The United States has encouraged the GCC countries to cooperate militarily, building on their small (approximately 10,000 personnel) Saudi-based force known as Peninsula Shield, formed in 1981. Peninsula Shield did not react militarily to the Iraqi invasion of Kuwait, casting doubt on the force's viability. Manpower shortages and disagreements over command of the force have prevented the GCC states from agreeing to a post-Gulf war Omani recommendation to boost Peninsula Shield to a 100,000 man force. Suspicions of Syria and Egypt have prevented closer military cooperation with those countries, as envisioned under the March 1991 "Damascus Declaration." However, the GCC states have taken some steps to increase cooperation. They have agreed in principle to double the size of Peninsula Shield and to rotate the command periodically, in alphabetical order. In October 1997, the GCC defense ministers agreed to collectively purchase a \$500 million ground-based early warning system that would link the radar and communication systems of the GCC countries.<sup>33</sup> They also plan eventually to install downlinks to retrieve information from Saudi Arabia's U.S.-made AWACs (airborne warning and control) aircraft.<sup>34</sup>

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<sup>31</sup> Finnegan, Philip. Qatar Seeks Out Closer Military Ties With U.S. *Defense News*, June 22-28, 1998.

<sup>32</sup> U.S. Offers 26 "AMRAAM" Missiles to Bahrain. *Reuters*, March 15, 1999.

<sup>33</sup> Faraj, Caroline and Barbara Opall. GCC Military Chiefs Endorse Radar Network Buy. *Defense News*, October 20-26, 1997.

<sup>34</sup> Fouad, Ashraf. Gulf Arabs Said to Move Toward Merging Defences. *Reuters*, November 11, 1997.

The Administration sees an important opportunity for cooperation in the deployment of a GCC-wide theater missile defense (TMD) system that can protect the Gulf states from Iran's increasingly sophisticated ballistic missile program and from any retained Iraqi ballistic missiles.<sup>35</sup> The Department of Defense, according to observers, envisions a system under which separate parts (detection systems, intercept missiles, and other equipment) of an integrated TMD network would be based in the six different GCC states. In proposing such a project, Secretary of Defense Cohen said on October 10, 1998, during a visit to the Gulf, that TMD technology was sophisticated and costly. His statement implied that cost sharing and integration among the GCC states are preferable to individual country purchases of Patriots or other TMD equipment. France immediately criticized the U.S. proposal on the grounds that the proposed network would spark a regional arms race. Some speculate that France and other major arms suppliers are questioning the U.S. proposal out of concern that they could be excluded from potentially lucrative arms contracts. Highlighting the missile threat, during his March 1999 visit to the Gulf, Secretary of Defense Cohen offered the Gulf states immediate access to U.S. intelligence on Iraqi or Iranian missile launches.<sup>36</sup>

**U.S. Forces in the Gulf.** The United States and the GCC states recognize that the Gulf states do not possess sufficient armed force to deter the threats from Iran and Iraq, and the Gulf states want a robust, if low-profile, U.S. military force in the Gulf. The United States maintains a baseline force in the Gulf of about 20,000 - 25,000 U.S. military personnel, 200 combat aircraft, and 20 ships. At least one aircraft carrier task force usually is in the Gulf and, on a few occasions during periods of crises with Iraq in 1998, two carrier task forces were there. In periods of crisis, U.S. forces in the Gulf swell to about 35,000. Several times each year, about 2,600 U.S. Army troops conduct exercises with Kuwaiti forces and, during periods of crisis with Iraq, additional Army troops are usually sent there on accelerated exercise schedule. As noted above, about 6,000 Air Force and other military personnel are located in Saudi Arabia, and approximately 1,000 U.S. Navy personnel are based in Bahrain to staff the headquarters of the U.S. Fifth Fleet. In mid-March 1999, U.S. Central Command said it is augmenting its mine countermeasures in the Gulf by sending 4 minehunting helicopters to join two minesweeping ships already in the region.

Nearby, but outside the Gulf area, U.S. military ties to Yemen are expanding, with recent visits by several high-ranking U.S. military officers, two ship visits, and combined military exercises. Yemen has also undertaken to provide bunkering for 600,000 barrels of oil for use by U.S. forces in the Arabian Sea region. A barrier to closer cooperation, however, is Yemen's reluctance to condemn Iraqi conduct.

**Gulf Cooperation With U.S. Middle East Policy.** The Administration has justified defense cooperation with the Gulf states, and its arms sales in the region, partly on the grounds that the Gulf states support the Arab-Israeli peace process. The GCC countries, for their part, see their support for the peace process as an exchange

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<sup>35</sup> Under Resolution 687, Iraq is allowed to retain and continue to develop missiles with a range of up to 150 km, which would put parts of Kuwait and Saudi Arabia within range of Iraq, even if Iraq abides completely by the provisions of the resolution.

<sup>36</sup> Cohen in Gulf to Offer 'Warning.' *Washington Times*, March 9, 1999.

for the implicit U.S. security guarantee to them. All the GCC states have participated in the multilateral peace talks, and Bahrain, Qatar, and Oman hosted sessions of the multilaterals. Saudi Arabia, Kuwait, and the UAE have been less enthusiastic in their participation. A regional water desalination research center has been set up in Oman as a result of an agreement reached at the multilaterals. In November 1997, at a time of considerable strain in the peace process, Qatar bucked substantial Arab opposition and hosted the Middle East/North Africa economic meeting, the last of that yearly event to be held. However, Saudi Arabia, the UAE, and Bahrain joined Egypt and other Arab states in boycotting that meeting.

As a by-product of the peace process, Oman, one of the few Arab countries not to denounce the 1978 Camp David Accords between Israel and Egypt, exchanged trade offices with Israel. In May 1996, after a visit to Qatar by Israel's then Prime Minister Shimon Peres, Qatar allowed Israel to open a trade office in Qatar. These moves represented a de-facto abrogation of the Arab League ban on direct trade with Israel (primary boycott) by these two Gulf states. Qatar, however, did not open a trade office in Israel and, since early 1998, has been threatening to close the Israeli office in Qatar because of the lack of movement in peace between Israel and the Palestinians. It is likely that only full Israeli implementation of the Wye River accords, or the May 1999 election of an Israeli government perceived as more willing to make concessions for peace, will cause the Gulf states to resume building ties to Israel.

The Gulf states continue to have reservations about closer relations with the PLO-led Palestinian Authority. They continue to blame PLO leader Yasir Arafat for backing Iraq in the 1990-91 Gulf crisis. Of the Gulf states, Kuwait is the most resentful of Arafat; in May 1998 high-level Kuwaiti leaders welcomed Arafat's key rival, Hamas founder Shaykh Ahmad Yassin, to Kuwait. Saudi Arabia, Qatar, and the UAE also received Yassin during his regional tour, but did not accord him the high profile welcome that Kuwait did.

Despite their reservations about Arafat and the PLO, several of the Gulf states have been responsive to U.S. appeals to provide financial support to the peace process. In the aftermath of the September 1993 Israeli-Palestinian Declaration of Principles, most of the Gulf states pledged aid to the Palestinian Authority. For the period during 1994-98, Saudi Arabia donated \$200 million; Kuwait and the UAE \$25 million each; and Qatar \$2.5 million. On November 30, 1998, following the Wye River Memorandum, another donors' conference for the Palestinians was held in Washington. At that meeting, Saudi Arabia pledged \$100 million for 1999-2003— one half their pledge of the first five year period — and Kuwait pledged \$80 million for that time period, a substantial increase over its 1994-98 donation.<sup>37</sup>

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<sup>37</sup> Shenon, Philip. U.S. and Other Nations Plan More Aid for Palestinians. *New York Times*, December 1, 1998.

## Conclusions and Prospects

For the remainder of 1999, it is difficult to envision major changes in the Persian Gulf security environment. Analysts expect that Iraq will continue to attempt to break out of its isolation, probably with mixed success, by attempting to portray the United States as an aggressor whose actions against Iraq are unjustified. Iraq is likely to persist in its efforts to bring about UNSCOM's demise altogether, although it might, in an effort to appear cooperative, work with U.N.-sponsored disarmament experts operating under less intrusive guidelines. It is conceivable, although not likely, that U.S. efforts to support Iraq's opposition will lead to a coup d'etat or uprising against Saddam Husayn or that, even without U.S. help, Iraq's continued repression of its Shia Muslim community will provoke popular unrest that engulfs the regime. Iraq might respond by lashing out at its neighbors or the United States through terrorist acts against Gulf military facilities or U.S. embassies in the region.

In Iran, observers do not anticipate that, during 1999, President Mohammad Khatemi will overcome internal opposition to beginning a political dialogue with the United States or accepting the Secretary of State's proposed "roadmap" to normal relations. Khatemi's supporters were victorious in February 1999 local elections, but a more important opportunity to best his political opponents comes in early 2000, when parliamentary elections will be held. Should pro-Khatemi candidates achieve a decisive parliamentary majority in those elections, Khatemi might have the strength to name a reformist Cabinet that is safe from parliamentary impeachment. This outcome might allow him to push forward on some controversial foreign policy initiatives, possibly including outreach to the United States. Whether Khatemi is politically weak or strong, Iran will probably push forward with its WMD programs, especially its ballistic missiles. There is a consensus among all Iranian factions that the strategic threats facing Iran, from Iraq, the United States, Afghanistan, or other quarters, justify developing WMD. Unexpected developments in Iran in the remainder of 1999 cannot be completely ruled out, including the political demise of Khatemi or his key allies, such as the Foreign Minister, at the hands of determined political opponents. Such an outcome could produce stepped up Iranian efforts to undermine the Arab-Israeli peace process, and increase the potential for anti-U.S. or anti-Israel terrorism worldwide.

The Gulf states face major economic difficulties and potential political unrest in 1999. Very few, if any, analysts envision a jump in oil prices sufficient to cover relatively large Gulf budget deficits. Resulting cutbacks in social spending could lead to unrest in some Gulf countries. In 1999, Saudi Arabia might see the completion of a leadership transition from King Fahd to Crown Prince Abdullah, who is now King in all but formal title. The UAE is in transition from Shaykh Zayid, who forged the formation of the UAE in 1971, to his son, Crown Prince Abdullah bin Zayid al-Nuhayyan. A potential new flareup in unrest in Bahrain remains a key concern — unrest that might be touched off by the ongoing trial of Shia Muslim opposition cleric Shaykh Jamri. Politics could be especially volatile in Bahrain following the sudden death of Shaykh Isa and the accession of his son, Hamad, as the new Amir. However, some analysts believe that falling oil prices are forcing the Gulf states to undertake major structural reforms and to welcome foreign investment, moves that could improve the long-term economic and political health of the Gulf states.

## Appendix 1. Gulf State Populations, Religious Composition

Country	Total Population	Number of Non-Citizens	Religious Composition
Iran	68.9 million	607,000	89% Shia; 10% Sunni; 1% Bahai, Jewish, Christian, Zoroastrian
Iraq	21.7 million	—	60-65% Shia; 32-37% Sunni; 3% Christian or other
Saudi Arabia	20.8 million	5.2 million	90% Sunni; 10% Shia
Kuwait	1.91 million	1.56 million	45% Sunni; 40% Shia; 15% Christian, Hindu, other
United Arab Emirates	2.3 million	1.56 million	80% Sunni; 16% Shia; 4% Christian, Hindu, other
Bahrain	661,300	224,600	75% Shia; 25% Sunni
Qatar	697,000	516,000	95% Muslim; 5% other
Oman	2.36 million	—	75% Ibadhi Muslim; 25% Sunni and Shia Muslim, and Hindu

Source: Central Intelligence Agency World Factbook, 1998. Population figures are estimates as of July 1998. Most, if not all, non-Muslims in GCC countries are foreign expatriates.



## Appendix 2.

### UNSCOM Accomplishments and Unresolved Issues

<b>Weapons Category</b>	<b>Accomplishments</b>	<b>Unresolved Issues</b>
Overall Status: Nuclear	IAEA reports Iraq's nuclear program dismantled and rendered harmless (April and October 1998 reports)	Questions remain about nuclear design drawings, documents, and fate of some equipment
Nuclear Fuel	All removed by IAEA	
Nuclear Facilities	Dismantled by IAEA	
Suppliers	IAEA says it has assembled a picture of Iraq's nuclear suppliers	Most of 170 technical reports from a German supplier unaccounted for
Overall Status: Chemical	Declared munitions, chemical precursors destroyed by UNSCOM	Most outstanding questions involve Iraqi production of VX nerve agent
VX nerve agent	Iraq admits producing 4 tons	No verification of the fate of the agent
VX precursor chemicals	191 tons verified as destroyed	About 600 tons unaccounted for, enough to make 200 tons of VX
Other chemical munitions	38,500 found and destroyed by UNSCOM	Fate of 31,600 munitions, 550 mustard shells, and 107,000 chemical casings unaccounted for
Chemical Weapons Agents	690 tons found and destroyed by UNSCOM	3,000 tons unaccounted for
Precursor Chemicals	3,000 tons found and destroyed by UNSCOM	4,000 tons unaccounted for
Chemical Monitoring	170 sites placed under long term monitoring	
Overall Status: Biological Program	UNSCOM has obtained Iraqi admissions that it had a biological warfare program	UNSCOM says most work remains in this category; no biological weapons found by UNSCOM
Biological Agents	Iraq admitted producing 19,000 liters of botulinum; 8,400 liters of anthrax; and 2,000 liters of aflatoxin and clostridium	No verification of destruction or amounts produced
Munitions	Iraq admits loading biological weapons onto 157 bombs	No verification of bomb destruction; fate of additional 500 parachute-dropped bombs unknown

Agent Growth Media	Supplier records show 34 tons imported	4 tons unaccounted for
Delivery Equipment	Iraq admits testing helicopter spraying equipment and drop tanks	Fate of these systems unknown
Production Facilities	Salman Pak facility buried by Iraq before inspections; Al Hakam bulldozed by UNSCOM	UNSCOM notes that biological agents can be produced in very small facilities
Monitoring	86 sites under long term monitoring	
Overall Status: Ballistic Missiles	Almost all imported missiles accounted for	Questions about Iraq's indigenous missile production remain
Imported Scud Missiles	UNSCOM says it has accounted for 817 of 819 Scuds imported from Russia	Two Scuds missing by UNSCOM accounting; U.S. and Britain believe 10-12 Scuds still unaccounted for
Chemical/Biological Warheads	75 warheads declared. 30 destroyed by UNSCOM, and at least 43, including 25 biological warheads, verified as destroyed	Two declared chemical warheads may be missing. Undeclared chem/bio warheads may exist
Imported Conventional Warheads	Iraq admits importing 50 Scud warheads for high explosives	Warheads unaccounted for
Indigenously-produced Missiles		30 warheads and 7 missiles unaccounted for
Missile Propellant		300 tons unaccounted for
Production Equipment	Iraq admits having 150 tons of equipment	Fate unknown
Monitoring	63 sites under long term monitoring	Missiles of up to 150 km range permitted. Outside experts believe programs used for research on prohibited-range missiles.

**Source:** The information in this table is derived from reports to the U.N. Security Council by the U.N. Special Commission on Iraq (UNSCOM) and the International Atomic Energy Agency.

### Appendix 3. No Fly Zones in Iraq



Adapted by CRS from Magellan Geographix. Used with permission.

Northern No Fly Zone Established April 1991

Southern No Fly Zone (South of 32<sup>nd</sup> Parallel) Established August 1992

Southern No Fly Zone Extended to 33<sup>rd</sup> Parallel Established September 1996

## Appendix 4. Map of the Persian Gulf Region and Environs



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