



Iran: Regional Perspectives and U.S. Policy

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Summary

As the Administration and Congress move forward to pursue engagement, harsher sanctions, or both, regional actors are evaluating their policies and priorities with respect to Iran. Iran's neighbors share many U.S. concerns, but often evaluate them differently than the United States when calculating their own relationship with or policy toward Iran. Because Iran and other regional concerns—the Arab-Israeli peace process, stability in Lebanon and Iraq, terrorism, and the ongoing war in Afghanistan—have become increasingly intertwined, understanding the policies and perspectives of Iran's neighbors could be crucial during the consideration of options to address overall U.S. policy toward Iran.

Iran's neighbors seek to understand and influence changes in the following areas:

- Iran's regional influence,
- Iran's nuclear program,
- Iran's role as an energy producer, and
- Iran's support for terrorism and non-state actors.

Although the Obama Administration may share many goals of the previous administration on Iran, it also sees the need for new strategies and approaches. The Obama Administration has advocated a policy of engagement with Iran to determine the nature of its nuclear program and address other subjects of international concern. While post-election turmoil in Iran delayed these efforts temporarily, it appears that the Administration is committed to pursue engagement through the P5+1 framework. At the same time, some Members of Congress have called for increased sanctions on Iran.

The United States, Israel, and the EU have proposed the end of 2009 as a deadline for Iran to demonstrate its willingness to cooperate on the nuclear issue. Regardless, any actions on the part of the Obama Administration, Congress, or the international community, and any developments in or provocations by Iran, will have implications for U.S. interests in the region as Iran's neighbors react and reevaluate their policies accordingly.

This report provides a description of Iran's neighbors' policies and interests, options for Congressional consideration, and an analysis of potential regional implications. For more information on Iran and regional perspectives, see CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman; CRS Report RL33476, *Israel: Background and Relations with the United States*, by Carol Migdalovitz; CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman; CRS Report RL33533, *Saudi Arabia: Background and U.S. Relations*, by Christopher M. Blanchard; CRS Report RS22323, *Iran's Activities and Influence in Iraq*, by Kenneth Katzman; and CRS Report R40653, *Iran's 2009 Presidential Elections*, by Casey L. Addis.

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Introduction: U.S. and Regional Interests

As the Administration and Congress move forward to pursue engagement, harsher sanctions, or both, regional actors are evaluating their policies and priorities with respect to Iran. Iran's neighbors share many U.S. concerns, but often evaluate them differently than the United States when calculating their own relationship with or policy toward Iran. Because Iran and other regional concerns—the Arab-Israeli peace process, stability in Lebanon and Iraq, terrorism, and the ongoing war in Afghanistan—have become increasingly intertwined, understanding the policies and perspectives of Iran's neighbors could be crucial during the consideration of options to address overall U.S. policy toward Iran.

Iran's neighbors seek to understand and influence changes in the following areas:

- Iran's regional influence,
- Iran's nuclear program,
- Iran's role as an energy producer, and
- Iran's support for terrorism and non-state actors.

Iran's Regional Influence

The United States and Iran's neighbors have expressed concerns about Iran's regional ambitions, its ability to influence the domestic political circumstances of its neighbors, and its ability to act as a spoiler in the peace process. Many analysts have cast events in the region as a power struggle between Sunni-ruled Arab states, led by Egypt and Saudi Arabia, and Iran and its allies and proxies, namely Syria, Hamas, and Hezbollah.¹ Others reject this paradigm as overly simplistic, pointing to Iran's physical and demographic attributes as an explanation for its regional role. Iran is a country of considerable size and resources² and, as a result, exerts a natural level of influence, both in positive and negative ways, they argue. Some observers have argued that Iran's soft power has diminished since the June 2009 presidential election and ongoing unrest.

For some of Iran's neighbors, Iran's regional influence is a domestic political concern. For example, Bahrain and Kuwait—Gulf states with significant Shiite populations—often express concerns that Iran is fomenting unrest among Shiites, highlighting fears about their own internal stability. In recent years, Morocco, Egypt, and Yemen have expressed similar concerns. Iran also uses proxies that at times are a destabilizing force, as is the case with Hezbollah in Lebanon. Others view Iran's regional aspirations in a broader sense. Saudi Arabia, for example, criticizes Iran's interference in what it perceives as “Arab causes,” like the Israeli-Palestinian issue, and reportedly confronts Iran's proxies in Lebanese politics with material support of Sunni political parties and candidates.

¹ Some analysts also include Qatar on the side of Iran.

² According to the CIA World Factbook, Iran has a population of over 66 million, ranking it 20th in the world, and an area of 1.6 billion square kilometers, ranking it 25th in land mass. Iran also ranks in the top five when it comes to proven oil reserves and natural gas production.

Iran's Nuclear Program

The primary goal of U.S. and international engagement with Iran is to gain a clear understanding of Iran's nuclear activities through inspections and safeguards, and to limit Iran's uranium enrichment capacity to mitigate future concerns about the nature of its program and its possible weaponization. Some argue that uncertainty over Iran's nuclear program centers on the regime's political will to develop a nuclear weapon and are uncertain whether that will exist. Many analysts, however, perceive the weaponization of Iran's nuclear program as a certainty unless the international community acts to stop it. The disclosure on September 21, 2009 of a second uranium enrichment facility near Qom raised concerns on all sides (see "Issues for Congressional Consideration" below). Iran's intentions are difficult to discern, but most analysts and observers agree that if Iran was seeking enriched fuel for nuclear energy and other civilian purposes, then it would not need to conceal an enrichment facility or restrict access of International Atomic Energy Agency (IAEA) inspectors to existing sites.

Most of Iran's neighbors share the concern of the United States and the international community over the nature of Iran's nuclear program, but some perceive it as a more imminent threat than others. Others recognize the threat but have competing economic and political interests that may prevent them from publicly expressing their concerns. Almost all of Iran's neighbors share the primary concern that uncertainty over Iran's nuclear program could lead to a regional arms race or war that could spill over into their territories, complicate their relationships with the United States, and/or badly damage their economies.

Iran's Role as an Energy Producer

Iran's energy resources serve as both a source of funds for its nuclear program, support for terrorism, and other activities, and as leverage over international players who might otherwise condemn those activities. According to the Energy Information Administration (EIA), Iran holds an estimated 10% of proven global oil reserves, the third largest proven reserves following Saudi Arabia and Canada. It is the fourth largest exporter of crude oil by volume, behind Saudi Arabia, Russia, and Norway. Perhaps just as valuable is Iran's strategic location along the Strait of Hormuz, a narrow chokepoint through which more than 40% of the world's traded oil transits. In addition to its oil reserves, Iran holds an estimated 15% of the world's natural gas reserves, the second largest globally. (Russia is first.)³ Iran's vast energy resources, some argue, are underexploited and with continued investment could become more vital as world demand also grows.⁴ This fact is increasingly relevant to regional and U.S. approaches to Iran, as nations in Asia develop stronger energy partnerships with Iran as a means of capitalizing on its potential.

For some of Iran's neighbors, economic and security concerns are in conflict when it comes to their relationships with Iran, and their policy priorities are shaped by whether they perceive potential economic benefits to outweigh security concerns. While almost all of Iran's neighbors share the view that a nuclear Iran is not desirable, especially if its development leads to a regional arms race or military conflict, some likely are unwilling to publicly challenge Iran on the issue because of their economic dependence on or relationships with Iran.

³ Energy Information Administration (EIA), "Country Analysis Briefs: Iran," 2007.

⁴ "Global Trends 2025: A Transformed World," National Intelligence Council Report, November 2008.

Iran's Support for Terrorism

The United States and Iran's neighbors are concerned about Iran's support for terrorism in the region. According to the U.S. State Department Country Reports on Terrorism, Iran supports an array of U.S.-designated terrorist organizations and militant groups, including Lebanese Hezbollah, Hamas, Palestinian terrorist groups, Iraqi militants, and Taliban fighters in Afghanistan.⁵ This support has at times undermined the political stability of Iran's neighbors, like Iraq, and poses direct military threats to others, like Israel and Lebanon. It also directly challenges U.S. efforts to advance the peace process, stabilize Iraq and Afghanistan, and promote regional stability.

Terrorist groups supported by Iran have perpetrated attacks in the Middle East, Europe, and Central Asia. While these attacks have targeted U.S. or Israeli interests, the presence of terrorist groups often limits the options available to Iran's neighbors to act together to address other regional concerns. By creating internal divisions and exploiting existing political and sectarian discord in places like the Palestinian territories and Lebanon, and by maintaining a proxy military presence on Israel's northern border (Hezbollah), Iran can perpetuate conflict without directly involving its own troops while using continued Arab-Israeli strife to justify its own militant, revolutionary rhetoric at home to shore up domestic support.

⁵ Secretary of Defense Robert Gates testified before the Senate Armed Services Committee on January 27, 2009 that the Defense Department had seen a slight increase in Iranian shipments of arms into Afghanistan in recent months, but also that the flow of Iranian weapons into Afghanistan remains at a small level. In attempting to explain the continuing shipments, some experts believe that Iran's policy might be shifting somewhat to gain leverage against the United States in Afghanistan (and on other issues) by causing U.S. combat deaths, but not so extensive as to risk a Taliban return to power. See Secretary Gates' testimony at <http://armed-services.senate.gov/Transcripts/2009/01%20January/A%20Full%20Committee/09-02%20-%201-27-09.pdf>

Figure I. Iran and its Neighbors



Source: Map Resources, Adapted by CRS (10/2009)

Iran: Regional Perspectives and Policies

Saudi Arabia⁶

Perspectives and Interests

As the two most politically and religiously influential states in the Gulf region, Saudi Arabia and Iran have long maintained a binary balance of power, with each seeking to maximize its position relative to the other and relative to important outside players. Knit together by a common Islamic history but divided by sectarian, ethnic, and linguistic differences, the two Gulf energy giants leverage their economic resources and political power competitively to shape policy outcomes

⁶ Prepared by Christopher Blanchard, Analyst in Middle Eastern Affairs, September 2009.

across the region and around the world. During the Cold War, the shared anti-Communist positions of the late King Faisal bin Abdul Aziz Al Saud and the late Shah Mohammed Reza Pahlavi made each a key regional ally of the United States under the so-called Twin Pillar policy, in spite of their latent rivalry. Iran's Islamic revolution accentuated core strategic tensions between the two regional powers by bringing religious and ideological differences into sharp contrast. In the 1980s, Iran's revolutionary clerical regime produced anti-Al Saud propaganda that questioned Saudi custodianship of the holy cities of Mecca and Medina, while official Saudi clerics and Salafi activists amplified their anti-Shiite rhetoric. Sectarian clashes in Saudi Arabia's Eastern Province and the holy city of Mecca underscored Saudi fears of potential subversion from Iran, and Saudi Arabia led other Gulf Arab states in supporting Iraq in its eight year war against Iran.

In the 1990s, Saudi Arabia served as the key hub for the implementation of the U.S. "dual containment" strategy, which was designed to maintain United Nations sanctions and no-fly zones in Iraq and to deter potential Iranian or Iraqi aggression. During this period Saudi Arabia viewed Iran in less hostile terms in light of Iraq's invasion of neighboring Kuwait. The U.S.-led invasion of Iraq in 2003 and the subsequent empowerment of Iraqi Shiites via the ballot box upended the prevailing security balance in the Gulf: in Saudi Arabia's view, Iran was the main beneficiary of the removal of Saddam Hussein. The potential for insecurity and sectarian violence in Iraq to draw Saudi Arabia and Iran into proxy warfare appears to have subsided at present. However, the fundamental reorientation of Iraq's political scene has created a new field of competition that continues to shape the views of Iranian and Saudi leaders about regional dynamics.

Elsewhere, Iran and Saudi Arabia remain engaged in a direct competition for influence, at times pursuing diametrically opposed policies with regard to Lebanon and the Israeli-Palestinian peace process. Whereas Saudi Arabia previously placed great emphasis on positioning itself as the spiritual, if not political defender, of Sunni Islamic orthodoxy and a transnational Muslim community, its leaders' current focus appears to be on strengthening national and pan-Arab solidarity in an attempt to undercut domestic extremist threats and contain Iran. While sectarian rhetoric continues to enflame Saudi-Iranian relations, the dynamic between the two governments has reverted to basic strategic competition, overlaid with official assurances of mutual respect and periodic consultation. Saudi authorities have become less wary about asserting a leadership role in the Arab world and have asked Iranian leaders not to unduly interfere in what the Saudi Arabian government now considers to be strictly "Arab causes," including Palestinian political disputes.⁷ Iran's nuclear program is a source of concern for Saudi Arabia, as is the potential for regional conflict resulting from the international community's confrontation with Iran.

Policy Priorities

Iran may no longer be working overtly to destabilize or overturn neighboring governments, but Iranian politicians nevertheless advocate for and support actors that have opposed Saudi policy and disrupted regional security in recent years, such as Hamas and Hezbollah. Combined with the perceived influence Iran has gained in Iraq and from its nuclear program, these trends have led

⁷ Saudi Foreign Minister Prince Saud Al Faisal stated in March 2009 following a visit from Iranian Foreign Minister Manouchehr Mottaki that, "although we [Saudi Arabia] appreciate the Iranian support for Arab causes, we believe that this support should be channeled through the Arab legitimacy, be consistent with its goals and positions, express its support for it and not be a replacement for it."

the Saudi government to adopt a cautious policy approach that seeks to avoid direct confrontation while limiting the further spread of Iranian influence through coordination with other Arab governments and, to a lesser extent, with the United States. In general, Saudi officials have pursued limited engagement with their Iranian counterparts and have avoided exacerbating sectarian tensions with official public statements. Saudi media outlets, including government owned television channels and newspapers, have taken a more critical line toward Tehran, and have capitalized on controversies such as the recent flare-up over Bahrain (see below) to fan popular opposition to perceived Iranian interference in the region. On the nuclear issue, Saudi Foreign Minister Prince Saud Al Faisal said in April 2009 that Saudi Arabia welcomed,

“the US Government’s positive approach of wishing to deal with the Iranian nuclear dossier crisis diplomatically and through dialogue. We are very hopeful that the Iranian Government will respond to these efforts for solving the crisis in a way that spares the Arab Gulf region and the Middle East the dangers of the proliferation of nuclear weapons and ensures the right of all the region’s countries to the peaceful use of nuclear energy in accordance with the International Atomic Energy Agency’s standards.”⁸

Economic and Security Concerns

The value of Saudi-Iranian trade remains relatively limited, estimated by the International Monetary Fund at \$1.42 billion in 2007 and \$1.87 billion in 2008.⁹ The limits imposed on the productivity of Iran’s oil sector by U.S. and international sanctions and the difficulties foreign firms have found working in Iran benefit Saudi Arabia by helping to preserve its global market share. As an oil producer with significant excess production capacity, Saudi Arabia is able to exert some pressure on global oil prices and thereby has the power to affect the potential oil export revenue available to its fellow OPEC member Iran.

Economic and security concerns are linked for both parties, as regional security disruptions have the potential to threaten the viability of oil exports and necessary imports. Saudi Arabia’s military forces possess more sophisticated modern equipment than those of Iran, in spite of the Iranian military’s larger overall manpower. Saudi military spending also far outpaces that of Iran. However, Iran’s ballistic and cruise missile forces, the unconventional capabilities of Iranian naval forces, and Iran’s relationships with non-state actors like Hezbollah are thought by many experts to pose a credible and dangerous threat in the minds of Saudi security officials. Saudi Arabia, as a longstanding military ally of the United States, is likely viewed by Iranian policy makers as a potential staging ground or facilitator for attacks on Iran and a potential target for retaliation against Iran’s enemies by virtue of the international community’s dependence on Saudi oil exports. As such, Saudi officials reportedly fear that Iran could attack in the event Iran were to face a military confrontation with the United States or Israel, even if Saudi Arabia had not been involved in the planning or execution of a military operation.

Prospects

The rivalry inherent to the Iranian-Saudi relationship appears natural given that the two states are emerging powers seeking to maximize their interests in a volatile, economically important region

⁸ “Saudi Arabia’s Al Faysal, UK’s Miliband Comment on Mideast Peace Process, Issues,” OSC Report GMP20090409825006, April 9, 2009.

⁹ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

and on the world stage. The vulnerability of both countries' energy assets and the unique constraints imposed by religious factors may help mitigate the likelihood of direct conflict, in spite of economic competition and apparent sectarian tensions between the two. Saudi-Iranian political tensions have flared in the past to the point of sparking limited military engagements, but over time Saudi and Iranian leaders consistently have found means of defusing their disagreements before these crises have escalated into broader conflict. To the extent that political developments in Iran empower figures intent on asserting Iranian influence in Iraq, the Gulf, and the Levant without regard for the views or interests of Arab states, Saudi Arabia can be expected to use its considerable economic and political influence to resist Iranian encroachment. To the extent that more accommodating, pragmatic figures prevail, Saudi leaders can be expected to continue limited engagement with Iran, in light of persistent concerns about Iran's regional ambitions. Developments in Iraq will shape Saudi and Iranian leaders' decision making about their own bilateral relationship.

Saudi Arabia's prospective response to the acquisition of a nuclear weapon by Iran has long been a matter of intense debate and conjecture among observers and policy makers. Speculative predictions aside, history and recent policy statements suggest that if Saudi leaders decide that a Iranian nuclear weapon would have a significant deterrent effect on the United States or otherwise intolerably alter the balance of power in the Gulf, then Saudi Arabia would take decisive action to secure its national interests as it has in the past, whether unilaterally or in cooperation with other governments. Most Gulf experts expect that Saudi Arabia's response would be a critical factor in other regional actors' decisions about a possible Iranian nuclear weapon's capability.

Qatar¹⁰

Perspectives and Interests

Since the Iranian revolution, Iran and Qatar have maintained positive relations, in spite of periods when Iran's relationships with the Arab Gulf states otherwise foundered, such as during the Iran-Iraq war and tanker war of the 1980s. Qatari officials have met frequently with members of Iran's government in Iran and in Qatar in recent years, and the Qatari government regularly advocates for increased dialogue between the GCC states, other Arab states, and Iran. Iranian President Mahmoud Ahmedinejad attended the December 2007 GCC summit in Doha at the invitation of Qatari Emir Hamad bin Khalifa Al Thani. He also attended a January 2009 summit on Gaza sponsored by the emir. In a March 2009 interview with a German newspaper, the emir explained Qatar's current perspective on the region and on Iran by saying,

“We are a small country and we can live with anything around us. We will not be an enemy to anybody, but of course we will not allow anybody to use us against others. We will not, for example, stand with America against Iran. For sure. Iran never bothered us, it never created a problem for us... It will be hard for the Gulf countries to be with Iran against the United States. And I believe Iran knows this.”¹¹

¹⁰ Prepared by Christopher Blanchard, Analyst in Middle Eastern Affairs, September 2009.

¹¹ “Qatari Emir Views Foreign Investments, Change in Economic Powers, Mideast Peace,” OSC Report EUP20090329499001, March 29, 2009.

These remarks, coupled with recent Qatari decisions to host Iranian leaders and to encourage Arab solidarity with Hamas during the January 2009 Gaza war have led some observers to argue that Qatar is working in opposition to the efforts of Saudi Arabia and Egypt and in favor of Iran. Qatari officials largely reject analyses that divide the region into opposing camps and argue that engagement, dialogue, and collective approaches to regional security problems between Arab states and Iran may offer opportunities to avert further tension and conflict. These arguments and positions are consistent with the Qatar' government's current reputation for favoring independent policies and asserting a leadership role consistent with its growing economic clout, in spite of its small population and very limited military capabilities.

Policy Priorities

Qatar's foreign policy priorities reflect its leaders' desire to maintain their country's independence, security, and freedom of action among more powerful competing regional and international actors, including the United States. Like other Arab Gulf states, Qatar's economic growth and diversification is in many ways dependent on the maintenance of stability in the Gulf region. Thus it views potential conflict, whether initiated by Iran or by others, as undesirable. Statements from Qatari leaders suggest that Doha views Iran as an ascendant regional power that cannot be ignored or fully contained by non-military means, and thus Qatar prioritizes engagement with Iran and its potential adversaries. Qatar's recent diplomatic activities, including its mediation of Lebanon's political deadlock in early 2008 and its advocacy on behalf of Hamas in January 2009, have been viewed by many regional observers as consistent with Iran's priorities, although Qatari leaders have described their regional diplomacy as driven by traditional Arab nationalist concerns. In July 2006, Qatar was the sole member of the United Nations Security Council to oppose Security Council Resolution 1696, which called on Iran to "suspend all enrichment-related and reprocessing activities, including research and development, to be verified by the IAEA," and proposed potential sanctions should Iran refuse.

Economic and Security Concerns

According to the IMF, the value of Iranian-Qatari trade was estimated at \$57 million in 2007 and \$75 million in 2008.¹² Iran and Qatar share the large North Field/South Pars natural gas deposit off the Qatari coast. Most of the gas in the field lies in Qatar's territorial waters (approximately 900 trillion cubic feet), with Iran's waters possessing the remainder (approximately 280 trillion cubic feet). Qatar's share of the field is the basis for the country's status as holding the third largest natural gas reserves in the world. Qatari liquefied natural gas exports brought an estimated \$35.6 billion in export revenue to the country in 2008.¹³

With small and lightly equipped armed forces, Qatar effectively relies upon the U.S. armed forces stationed in the country for its defense. However, the presence of U.S. forces also creates a potential flashpoint vis-à-vis Iran; in the event of U.S.-Iranian hostilities, U.S. military facilities in Qatar would be critical for U.S. command and control purposes and thus could be likely targets of Iranian attack. The Chief of Staff of the Qatari Armed Forces Major General Hamad bin Ali al Attiyah travelled to Iran in July 2009 and held security talks with Iranian defense officials,

¹² International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

¹³ Vernon Silver and Henry Meyer, "Sheikh Who Backed Barclays Gets Another Shot With Qatar's Money," *Bloomberg*, May 12, 2009.

including the commander of the Iranian Revolutionary Guard Corps. Iran's Ambassador to Qatar has stated that Sheikh Tamim bin Hamad plans to visit Tehran to conclude a number of memoranda of understanding. Qatar has not verified the reported plans.

Prospects

Unlike the other GCC states, Qatar has an enduring economic and security linkage to Iran, by virtue of the shared energy resources in the countries' contiguous waters. Without access to the shared gas deposit or under conditions where gas production facilities created with massive state investments were threatened with attack, Qatar's economy and fiscal position could suffer greatly. Qatar has maintained a policy of engagement with Iran and has strengthened bilateral ties as Iran's influence relative to other regional actors has grown in recent years. Absent a change in the nature and senior clerical leadership of the Iranian government, political changes among Iran's elected leadership are unlikely to jeopardize or significantly alter Iranian-Qatari relations. In late June 2009, Qatari Prime Minister and Foreign Minister Sheikh Hamad bin Jassem bin Jabr Al Thani characterized the election dispute as "an internal matter because we must respect the right of each state to solve its own problems. The Iranians will decide how to resolve their problems among themselves, and I am certain that they will bypass this crisis."¹⁴ A more moderate government in Tehran could empower Qatari efforts to promote GCC engagement with Iran as a means of preventing conflict. Qatari officials have simultaneously pursued a policy of rapprochement with Saudi Arabia, bringing an end to a series of long running political and boundary disputes, and with other Gulf states, building transportation and energy linkages to Bahrain, the United Arab Emirates, and Oman. Qatar's policy of attempting to "not be an enemy to anybody" appears sustainable unless drastic changes in security conditions compel Qatari leaders to choose among friends.

Bahrain¹⁵

Perspectives and Interests

As the rulers of a small state among larger regional and international powers, Bahrain's Sunni Arab monarchy historically has depended on good relations with external actors as the ultimate guarantee of its stability and security. Bahrain's current foreign relations reflect dynamics common to the country's history: the government of Bahrain seeks to maintain the country's security and independence through alliances with fellow Arab states, through a policy of engagement and non-antagonism toward Iran, and through the support of a powerful extra-regional actor, the United States. As an international hub for business and banking, Bahrain's economic success depends upon its image as a secure environment for investment and commerce. The potential for disruptive regional developments or conflict and the island's perennially disgruntled Shiite majority are the two principal concerns of Bahrain's ruling elite.

¹⁴ *BBC Monitoring Middle East*, "Shaykh Hamad Bin-Jasim Bin Jabr Al Thani, Premier discusses Qatari mediation, Al-Jazeera, ties with Egypt, Israel, Saudi" June 26, 2009.

¹⁵ Prepared by Christopher Blanchard, Analyst in Middle Eastern Affairs, September 2009.

Bahrain's ruling family, the Al Khalifa, first established control over Bahrain and its predominantly Shiite population in the 1780s, after overcoming and expelling Persian outposts on the island. The Al Khalifa family subsequently sought alliances to secure itself from the predations of several regional powers, including Persia, until ultimately agreeing to make Bahrain a British protectorate in 1861.¹⁶ Persian officials contested Bahrain's sovereignty repeatedly during the 19th and 20th centuries, most notably in the early 1930s, when Reza Shah contested the right of Bahraini officials to grant oil concessions to U.S. and British interests, and in 1957, when a bill was submitted to the Iranian Majlis (legislature) to make Bahrain a province of Iran. Prior to Bahrain's independence from Britain in 1971, Iran reasserted its claim to Bahrain, and the United Nations Secretary General dispatched a representative to determine the views of Bahrainis, who found that the island's residents overwhelmingly favored independence from all outside powers, including Iran. The findings were endorsed by the United Nations Security Council in Resolution 278 and Iran's legislature ratified the resolution, in effect relinquishing all claims to Bahrain.¹⁷

While these issues were formally settled nearly forty years ago, concerns that the claims will be revived have arisen from time to time based on comments by officials and clerics associated with the Islamic Republic of Iran. The most recent example occurred in February and March 2009, when media reports that a former speaker of the Iranian parliament and then-aide to Iran's Supreme Leader had referred to Bahrain as Iran's 14th province sparked a regional controversy. In response, the Iranian Foreign Ministry repeatedly reasserted Iran's respect for Bahrain's sovereignty and independence alongside Bahraini officials, amid condemnations from a number of other Arab states. In spite of Iranian government assurances, the remarks were seized upon by Arab governments and observers who are convinced that Iran harbors hostile intentions toward its neighbors and have been concerned about perceived Iranian interference in Arab affairs in recent years. Bahrain's leaders, like those of other Arab Gulf states, have responded cautiously to Iran's nuclear program and the sectarian tension that has accompanied conflict in Iraq and rise of the Shiite Arab political parties since the fall of Saddam.

Policy Priorities

Bahrain's limited resources and large Shiite population, some of whom are of Persian ethnicity, create unique challenges for the country's leaders as they view their relationship with Iran and events in the region. In the past, Bahrain's rulers have accused Iran of supporting pro-Iranian proxy groups against the Bahrain government, and Bahraini concerns about the potential for Iranian-supported unrest have been amplified in recent years amid sectarian violence in Iraq and resurgent protests by Shiite groups in Bahrain. Recent riots mirror similar events in the mid-1990s that produced accusations of Iranian interference, although reporting suggests the political disputes driving the current unrest are based on long-standing unresolved domestic grievances and government reactions rather than widespread pro-Iranian sentiment. Bahrain's leading Shiite opposition party, Al Wafaq, remains engaged in the political process and expressed concern about

¹⁶ Majid Khadduri, "Iran's Claim to the Sovereignty of Bahrayn," *American Journal of International Law*, Vol. 45, No. 4 (Oct., 1951), pp. 631-647.; and, J. B. Kelly, "The Persian Claim to Bahrain," *International Affairs*, Vol. 33, No. 1 (Jan., 1957), pp. 51-70.

¹⁷ For more information on this process, see Husain Al Baharna, "The Fact-Finding Mission of the United Nations Secretary-General and the Settlement of the Bahrain-Iran Dispute, May 1970," *International and Comparative Law Quarterly*, Vol. 22, No. 3 (Jul., 1973), pp. 541-552; Edward Gordon, "Resolution of the Bahrain Dispute," *American Journal of International Law*, Vol. 65, No. 3 (Jul., 1971), pp. 560-568; and, United Nations Security Council, Notes by the Secretary General, S/9726 and S/9772.

Iranian comments concerning Bahrain's sovereignty in recent months. The party also played a mediating role following the December 2008 arrests of Shiite activists accused of plotting bombing attacks on Bahrain's national day, helping to secure the release of rival Shiite leader Hassan Mushaima. Al Wefaq and Mushaima's hard-line Al Haq movement will compete for influence among Bahrain's Shiite majority in the run-up to parliamentary elections scheduled for 2010, although it remains unclear whether Al Haq will formally participate or seek to put pressure on Al Wefaq to reinstate its boycott in light of continuing disillusionment among Shiites. Bahrain's monarchy and Sunni community are likely to continue to closely monitor developments among leading Shiites for signs of Iranian influence or agitation.

Economic and Security Concerns

Iranian-Bahraini trade is limited; the IMF estimated its 2007 value at \$166 million and \$177 million in 2008.¹⁸ Negotiations for a potential natural gas agreement for Bahrain to import Iranian gas to meet growing domestic energy demand was temporarily placed on hold following the sovereignty controversy in early 2009. Under the terms of the agreement, Bahrain and Iran would build a pipeline to enable Bahrain to import 28 million cubic meters per day of gas over 25 years.¹⁹

As stated above, Bahrain's primary security concerns are domestic and relate to Iran only to the extent that Iranian leaders may seek to exacerbate existing tensions between Bahrain's Sunni monarchy and its majority Shiite population. Bahrain relies on its relations with the United States and Saudi Arabia for its external security. Like Qatar, Bahrain hosts major U.S. military facilities, specifically the forward headquarters for the U.S. Navy component of U.S. Central Command, and may fear a potential retaliatory attack in the case of hostilities involving the United States or Israel and Iran.

Prospects

Suspicions of Iran among Bahrain's leaders appear deeply ingrained, and are amplified in instances where Bahrain's leaders perceive Iran to be pursuing hegemonic or sectarian policies. Election-induced political changes in Iran as a result of the disputed 2009 election could mitigate some, but not all of Bahrain's concerns. Acquisition of a nuclear weapon by Iran would likely deepen Bahrain's reliance on the United States, although trends and reactions among the Gulf Cooperation Council states would also exert significant influence on Bahrain's response. Iran appears poised to continue its efforts "to consolidate and deepen relations with all nations in the Persian Gulf, especially Bahrain,"²⁰ as a means of minimizing the prospects for collective GCC action that could harm its interests.

¹⁸ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

¹⁹ Geoff King, "Iran says not officially told Bahrain has suspended gas talks," *Platts Commodity News*, February 22, 2009.

²⁰ Iranian Foreign Minister Manuchehr Mottaki quoted in *Al Arabiya* "Bahrain and Iran declare 'good' ties after crisis," February 26, 2009.

The United Arab Emirates²¹

Perspectives and Interests

Like the other Gulf states, the United Arab Emirates (UAE) have had complex relationships with Iran historically, marked by changing alliances and, in some cases, contested sovereignty. On a national basis, the UAE government has viewed Iran simultaneously both as a potentially hostile neighbor and as an important commercial partner since the formation of the UAE in 1971. The seven constituent emirates' relations with Iran have proven complex, with some, such as Ras Al Khaymah and Abu Dhabi, having long held more negative views of Iran and its intentions, and others, such as Dubai and Sharjah, taking more accommodating positions based on shared commercial and demographic ties.

Persian and Iranian interaction with the Arab Trucial States, as the emirates were collectively known prior to the formation of the UAE in 1971, was critical in their early economic and political development and shaped interactions and rivalries between the emirates as the new state emerged. In 1971, Iran, then ruled by U.S.-backed Shah Mohammed Reza Pahlavi, seized two islands, Greater and Lesser Tunb, from the emirate of Ras Al Khaymah, and established a military outpost on the largely uninhabited island of Abu Musa under a bilateral agreement with the emirate of Sharjah. In April 1992, Iran exerted control of the remainder of Abu Musa. The dispute over the sovereignty of the islands has persisted over the last nearly 40 years, and frequently has enflamed tensions between the UAE, Arab states, and Iran. In October 2008, the UAE and Iran signed an agreement to establish a joint commission to resolve the islands dispute; that agreement came two months after the UAE protested Iran's opening in August 2008 of administrative and maritime security offices on Abu Musa. The United States is concerned about Iran's control over the islands, but takes no position on the sovereignty of the islands.

In a March 2009 interview, UAE President Sheikh Khalifa bin Zayed Al Nahyan explained the UAE government's views on the islands dispute and the Iranian nuclear program:

“As a matter of principle, we do not condone the use of force in solving international disputes no matter how far away the location of this dispute may be. How much more so, when it is next door! We always stress the need to listen to the sense of reason in resolving the differences on Iran's nuclear program, which should be by peaceful means. We still hope these efforts will succeed. We also hope that all parties will exercise self-restraint and meet the demands of the international community on this issue...

We hope that our brothers and neighbors [sic] Iranians will respond to our demands by handing over the Islands to the UAE. Our request is not an impossible one (to accept), since we are only asking that our legitimate rights to the three islands of Abu Musa, Greater Tunb Greater and Tunb Lesser be restored. We are looking forward to retrieving our sovereignty over the Islands through peaceful approach and dialogue. We have said repeatedly that the UAE will accept any ruling by the International Court of Justice, whether in our favor or not.”²²

²¹ Prepared by Christopher Blanchard, Analyst in Middle Eastern Affairs, September 2009.

²² *Emirates News Agency (WAM)*, “UAE President: Doha Summit an Opportunity to Mend Arab Fences,” March 25, 2009.

Policy Priorities

Like Saudi Arabia, the UAE's current policy priorities are multifaceted. In general, Emirati officials stress that they are seeking to avoid circumstances that would lead to regional conflict in which Iran could attack UAE territory. Specifically, they are seeking to engage with Iran on key disputes and cooperate with international partners to stem the advance of Iranian regional influence. The UAE's vibrant economy and planned growth depends on security and regional stability and UAE leaders accordingly promote peaceful resolutions to regional disputes, even as they prepare to minimize the threat that regional security disruptions and military threats could post to the UAE. Tangible expressions of these priorities are visible in recent UAE support for the Obama Administration's outreach to Iran and calls for a mediated resolution to the islands dispute. These initiatives are paired with UAE political and financial support for the Palestinian Authority, endorsement of the Arab League peace proposal to Israel, and the UAE's diplomatic engagement and debt forgiveness toward Iraq, all of which attempt to balance countervailing Iranian efforts.

Economic and Security Concerns

Iran-UAE economic relations are well developed. The IMF estimates the value of bilateral trade at \$5.9 billion in 2007 and \$7.74 billion in 2008.²³ Dubai has long served as a particularly important commercial center for Iranian traders and businessmen, and Iranian merchants make significant profits bringing goods back and forth across the Gulf to Emirati ports. A number of Iranian banks operate branches in Abu Dhabi and Dubai, which U.S. officials suspect have become increasingly important nodes for the Iranian banking system as it seeks to maintain access to international financial markets amid tightening multilateral banking sanctions. The UAE, under the auspices of the Abu Dhabi Executive Authority, also has begun to move forward with plans to build nuclear power stations, and has sought to position its program as a counterexample to Iran's by agreeing to forego the development of indigenous uranium enrichment and fuel reprocessing capabilities. Ironically, the willingness of international partners to support the UAE nuclear program has been undermined by instances in which Iran and other nuclear proliferation customers and suppliers have used the UAE as a transit, shipping, and financial hub.

The UAE, particularly Abu Dhabi, has long feared that the large Iranian-origin community in Dubai emirate (est. 400,000 persons) could pose a "fifth column" threat to UAE stability. Military cooperation and arms sales form a key pillar of U.S.-UAE relations. The UAE hosts frequent port calls and shore visits for U.S. naval vessels and allows the U.S. military to use Al Dhafra air base in support of a variety of missions in the U.S. Central Command (CENTCOM) area of operations. In 2007 and 2008, the Bush Administration notified Congress of over \$19.4 billion in potential arms sales to the UAE, including what would be the first overseas sale of the Terminal High Altitude Air Defense system, an anti-missile system well suited for responding to potential Iranian threats.²⁴

²³ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

²⁴ Information about notifications of proposed U.S. arms sales is available from the U.S. Defense Cooperation Agency at: http://www.dsca.mil/PressReleases/36-b/36b_index.htm.

Prospects

UAE-Iranian relations are shaped by tensions inherent to interactions between a small, heterogeneous federation and a more powerful, ambitious, ideologically motivated neighbor. Each side views the bilateral relationship through the lenses of their economic interdependence, their open territorial disputes, their ethnic differences, and sectarian divisions. Emirati authorities allowed public protests at the Iranian consulate in Dubai in relation to post-election disputes in Iran, and subsequent political changes in Iran as a result of the election dispute have the ability to amplify or reduce the extent to which the UAE views Iran as a threat. The UAE strongly opposes the militarization of Iran's nuclear program and would likely seek greater security coordination with the Gulf Cooperation Council or a clear commitment of protection from the United States. The prospect remains that the UAE could alter its decision to forego domestic uranium enrichment or plutonium reprocessing technology at some time in the future, which could signal pursuit of a more independent option, although doing so would risk harming UAE-U.S. relations.

Kuwait²⁵

Perspectives and Interests

Kuwait's relationship with and perceptions of Iran have generally been a function of Kuwait's core concerns about Iraq, Kuwait's larger neighbor which invaded and occupied it from August 1990 until February 1991. During the rule of Saddam Hussein in Iraq, Kuwait considered Iran a counterweight to Iraqi power in the Gulf region, and most strategists in Kuwait did not view Tehran as the potential regional hegemon that some of its Gulf allies have. Some of its Gulf neighbors criticized Kuwait for attempting to use Iran and Iranian-supported movements to weaken Saddam Hussein. During the 1990s, Kuwait often hosted pro-Iranian Iraqi Shiite oppositionists against Saddam, including those of the Supreme Council for the Islamic Revolution in Iraq (SCIRI), which is now a major Shiite party in Iraqi politics and has changed its name to the Islamic Supreme Council of Iraq (ISCI).

Policy Priorities

In keeping with Kuwait's overall perceptions and strategy, Iran-Kuwait relations are relatively normal. High level visits are routine, including parliamentary exchanges. In early 2008, the two formed an Iran-Kuwait Higher Committee to continue building relations. Kuwaiti refineries supply gasoline to Iran, which must import about 30% of its gasoline needs. The two are attempting to resolve their common maritime border, a pre-requisite for the proposed joint development of the disputed Durra offshore oil field, which also straddles the Saudi maritime border.

Kuwait has also taken a moderate approach to Iran's nuclear program. While the Kuwaiti government has stated that it is committed to complying with all U.N. Security Council Resolutions, including resolution 1801 which includes sanctions on Iran²⁶, it has also cautioned

²⁵ Prepared by Kenneth Katzman, Specialist in Middle Eastern Affairs, June 2009.

²⁶ U.S. Open Source Center (OSC) Document GMP20081002966020, "Kuwait in Compliance with UNSC Iran Sanctions Resolution Interior," *KUNA*, October 2, 2008.

against an escalation to conflict. Speaker of the Kuwaiti National Assembly Jassem al Kharafi stated that “there are provocative Western statements, and Iran responds in the same way...I believe that a matter this sensitive needs dialogue not escalation.”²⁷

Economic and Security Concerns

So acute were Kuwait’s fears of Saddam Hussein that it curried favor with pro-Iranian Iraqi Shiite parties even though these same Shiite groups had conducted attacks in Kuwait in the 1980s. The December 1983 bombings of the U.S. and French embassies in Kuwait and an attempted assassination of the Amir in May 1985 were attributed to the Iraqi Da’wa (Islamic Call) Party, the Shiite party of Iraqi Prime Minister Nuri al-Maliki. Seventeen Da’wa activists were arrested for these attacks. Da’wa activists also hijacked a Kuwait Airlines plane in 1987. These acts in the 1980s were perceived by many as an effort by Tehran – using these Iraqi allies – to pressure Kuwait into ending its support of Iraq during the Iran-Iraq war. At that time, Iran was viewed by Kuwait and the other Gulf states as the larger threat in the Gulf. During 1987-88, the United States protected Kuwaiti oil tankers against Iranian attack. Kuwait’s perception changed when Saddam turned against the Gulf states by invading Kuwait in August 1990. In May 2001, Kuwait publicly apologized for supporting Iraq during the Iran-Iraq war.

Iran and Kuwait also have limited trade, approximately \$43 million in 2008.²⁸

Prospects

Some Kuwaiti strategists, such as former Ambassador to the United States Shaykh Saud al Nasser Al Sabah, have questioned Kuwait’s stance as naive and potentially dangerous.²⁹ These observers question Iran’s motives and believe that Kuwaiti leaders mistakenly do not perceive that Iran is slowly seeking to establish hegemony in the Gulf. Kuwait has not publicly accused Iran of attempting to support Kuwaiti Shiites (who are about 30% of Kuwait’s population) as a potential internal opposition in Kuwait, but some believe Iran is looking for opportunities to strengthen Shiites in Kuwait to ensure that Kuwait maintains a relatively friendly posture towards Iran. Others say that Iran has no opportunity to support Shiites in Kuwait as an opposition movement because Kuwaiti Shiites are relatively well integrated into Kuwait’s society and economy, and have fewer grievances than do Shiites in other states of the Gulf. On July 18, 2008, Kuwait named its first ambassador to Iraq since the 1990 Iraqi invasion—Ali al Momen, a retired general. Momen is a Shiite Muslim, and his appointment signaled Kuwait’s acceptance that Iraq is now dominated politically by Shiites.

²⁷ “Kuwaiti Parliament Speaker Says the West is ‘Provoking’ Iran On Nuclear Issue,” *Associated Press*, July 14, 2008.

²⁸ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

²⁹ CRS conversations with Shaykh Saud al Nasser Al Sabah. 1997 – 2006.

Oman³⁰

Perspectives and Interests

Of the Gulf states, Oman is perceived as politically closest to and the least critical of Iran. Its leader, Sultan Qaboos bin Said Al Said, has often pursued foreign policies outside an Arab or Gulf consensus, and Qaboos sees no inconsistency between Oman's alliance with the United States and its friendship with Iran. This relationship has proved useful to the United States in the past; Oman was an intermediary through which the United States returned Iranian prisoners captured during U.S.-Iran skirmishes in the Persian Gulf in 1987-88. Oman's attempts to steer a middle ground caused problems for Oman in April 1980 when, within days of signing an agreement allowing the United States military to use several Omani air bases, the United States used these facilities—reportedly without prior notification to Oman—to launch the abortive mission to rescue the U.S. Embassy hostages seized by Iran in November 1979.³¹

Policy Priorities

The question many observers ask is why is Oman not as wary of Iran as are the other GCC states. Oman has no sizable Shi'ite community with which Iran could meddle in Oman, so the fear of Iranian interference is less pronounced. There are also residual positive sentiments pre-dating Iran's Islamic revolution. Oman still appreciates the military help the Shah of Iran provided in helping end a leftist revolt in Oman's Dhofar Province during 1964-1975. Others attribute Oman's position on Iran to its larger concerns that Saudi Arabia has sought to spread its Wahhabi form of Islam into Oman, and Oman sees Iran as a rival to and potential counterweight to Saudi Arabia.

Economic and Security Concerns

Oman reportedly is discussing a security pact with Iran, although the scope is as yet undefined.³² In addition, Oman's government is said to turn a blind eye to the smuggling of a wide variety of goods to Iran from Oman's Musandam Peninsula territory. The trade is illegal in Iran because the smugglers avoid paying taxes in Iran, but Oman's local government collects taxes on the goods shipped.³³ Bilateral trade between Oman and Iran was approximately \$1.45 billion in 2008, and consists mostly of natural gas exports from Iran to Oman.³⁴

Oman's position on Iran's nuclear program is consistent with the general trend of Oman-Iran relations. On October 1, 2009, Omani Foreign Minister Yusuf bin Allawi bin Abdallah stated that "the Arabs and any Arab have no interest in being hostile to Iran," adding that "the entire world

³⁰ Prepared by Kenneth Katzman, Specialist in Middle Eastern Affairs, June 2009.

³¹ CRS conversations with U.S. Embassy officials in Oman, 1995-2003.

³² Slackman, Michael. "Oman Navigates Risky Strait Between Iran and Arab Nations." *New York Times*, May 16, 2009.

³³ Ibid.

³⁴ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

calls for a peaceful solution” to the international dispute over the nature of Iran’s nuclear program.³⁵

Prospects

Some accounts say that Oman is in the process of drawing closer to Iran than it has previously. Oman, as do the other GCC states, publicly opposes any U.S. attack on Iran’s nuclear facilities, and has rebuffed efforts by the other Gulf states to persuade Oman to distance itself from Iran politically.

Iraq³⁶

Perspectives and Interests

Since the fall of Saddam Hussein, Iran has sought to shape and influence the post-Saddam political structure to Iran’s advantage. Iran succeeded in that strategy during 2004-2007, when Iraq was highly unstable and when it appeared, at times, that the U.S. effort to secure and democratize Iraq were failing. As Iraq stabilized during 2008, Iraqi nationalism strengthened and Iran came to be seen by many Iraqis, both Sunni and Shiite, as meddling and a contributor to sectarian conflict. Iraqi leaders continue to take Iran’s interests into account, but they no longer reflexively support Iranian positions.

The Sadr faction’s political ties to Iran were initially limited because his family remained in Iraq during Saddam’s rule. Still, the Sadr clan has ideological ties to Iran; Moqtada’s cousin, Mohammad Baqr Al Sadr, founded the Da’wa Party and was a political ally of Ayatollah Khomeini when Khomeini was in exile in Najaf (1964-1978). Iran came to see political value and potential leverage in Sadr’s faction—which has 30 total seats in parliament, a large and dedicated following among lower-class Iraqi Shiites, and which built a 60,000 person “Mahdi Army” (Jaysh al-Mahdi, or JAM) militia after Saddam’s fall.

Perceiving the JAM as useful against the United States in the event of a U.S.-Iran confrontation, in 2005, Iran began arming it through the Revolutionary Guard’s “Qods (Jerusalem) Force,” the unit that assists Iranian protégé forces abroad. During 2005-6, the height of sectarian conflict in Iraq, Badr fighters in and outside the ISF, as well as JAM militiamen, were involved in sectarian killings of Sunnis, which accelerated after the February 2006 bombing of the Al Askari Mosque in Samarra.

The sectarian conflict empowered Shiite militias such as the JAM, but the arbitrary administration of justice and sense of constant conflict created by the militias triggered a popular backlash against them and against Iran. This was demonstrated in the January 31, 2009 provincial elections, which represented a clear setback for Iran and its interests. ISCI was hoping to sweep the elections in the Shiite south, but it did not come in first in any Shiite province. Sadrist candidates also fared generally poorly. In most of the Shiite provinces, the slate of Prime

³⁵ U.S. Open Source Center (OSC) Document GMP20091001825001, “Omani Foreign Minister on Relations with Iran, Israel, Hamas, GCC,” *Al-Hayah Online* (London), October 1, 2009.

³⁶ Prepared by Kenneth Katzman, Specialist in Middle Eastern Affairs, June 2009.

Minister Nuri al-Maliki—who is relatively pro-Iranian but whose party does not have a militia and whose slate ran on a platform of rule of law—came in first.

The Defense Department’s “Measuring Stability and Security in Iraq” report, published March 2009, says that Iran continues to support Sadr’s religious studies in Qom, Iran and that “Tehran has selectively reduced the number of militants it supports.³⁷ However, Tehran has also simultaneously improved the training and weapons systems received by the proxy militants.” The DoD report acknowledges that Tehran suffered a setback in the elections, stating that “Iraqi nationalism may act as a check on Iran’s ambitions...” That report adds, however, that Iran “continues to pose a significant challenge to Iraq’s long-term stability and political independence.”

Policy Priorities

Some of Iran’s interests have been served by post-Saddam Iraqi leaders, although Iraqi nationalism that has been emerging since 2007 has reduced Iraq’s pliability on longstanding disputes. During exchanges of high-level visits in July 2005, Iraqi officials took responsibility for starting the 1980-1988 Iran-Iraq war, indirectly blamed Saddam Hussein for using chemical weapons against Iranian forces during the war, signed agreements on military cooperation, and agreed to open Iranian consulates in Basra, Karbala, Irbil, and Sulaymaniyah. In response to U.S. complaints, Iraqi officials subsequently said that any Iran-Iraq military cooperation would not include Iranian training of Iraqi forces. On May 20, 2006, Iraq’s Foreign Minister, Hoshyar Zebari, supported Iran’s right to pursue “peaceful” nuclear technology.³⁸

On the other hand, Iran has not returned the 153 Iraqi military and civilian aircraft flown to Iran at the start of the 1991 Gulf War, and Iraqi leaders demand their return. Iraqi officials also have refused to expel the Party for a Free Life in Kurdistan (PJAK), an Iranian Kurdish separatist group, which Iran says is staging incursions into Iran from Iraqi territory. On February 5, 2009, that group was named by the U.S. Treasury Department as a terrorism supporting entity under Executive Order 13224.

Most territorial issues that have contributed to past disputes were resolved as a result of an October 2000 rededication to recognize the *thalweg*, or median line of the Shatt al Arab waterway as the water border (a provision of the 1975 Algiers Accords between the Shah of Iran and the Baathist government of Iraq, abrogated by Iraq prior to its September 1980 invasion of Iran.) The water border is subject to interpretation, but the two sides agreed to renovate water and land border posts during the March 2008 Ahmadinejad visit to Baghdad. In February 2009, Foreign Minister Zebari urged Iran to move forward with these demarcations, suggesting Iranian foot-dragging to resolve an issue whose ambiguity now favors Iran.

Economic and Security Concerns

Suggesting the degree to which the Iraqi government still views Iran as a benefactor, Maliki has visited Iran four times as Prime Minister to consult on major issues and to sign agreements. On

³⁷ The full text of the report is available at http://www.defenselink.mil/pubs/pdfs/Measuring_Stability_and_Security_in_Iraq_March_2009.pdf.

³⁸ “Clarification Statement” issued by Iraqi Foreign Minister Hoshyar Zebari. May 29, 2006.

March 2-3, 2008, Iranian President Ahmadinejad visited Iraq, a first since the 1979 Islamic revolution. In conjunction, Iran announced \$1 billion in credits for Iranian exports to Iraq (in addition to \$1 billion in credit extended in 2005, used to build a new airport near Najaf, opened in August 2008, which helps host about 20,000 Iranian pilgrims per month who visit the Imam Ali Shrine there). Suggesting Iran's earlier generosity is being reciprocated, in February 2009, the Iraqi government awarded a \$1 billion contract to an Iranian firm to help rebuild Basra, and to repair ancient Persian historical sites in southern Iraq.³⁹ As of the beginning of 2009, the two countries now conduct about \$4 billion annually in bilateral trade, according to Iraq's Trade Minister⁴⁰, and the February 2009 visit of Iranian Foreign Minister Mottaki resulted in a plan to increase that trade to \$5 billion annually through increases in oil and electricity-related trade.⁴¹ The two countries have developed a free trade zone around Basra, which buys electricity from Iran.

Iran has had some success in exploiting its ties to Iraqi government leaders to try to build broad political and economic influence over outcomes in Iraq. The most pressing concern for the United States was Iran's efforts to derail a U.S.-Iraq Status of Forces Agreement (SOFA) that authorizes the U.S. military presence beyond December 31, 2008. Senior Iranian leaders publicly opposed the pact as an infringement of Iraq's sovereignty—criticism that masked Iran's fears the pact is a U.S. attempt to consolidate its "hold" over Iraq and encircle Iran militarily. This criticism did not derail an accord, but might have contributed to insistence by Iraqi leaders on substantial U.S. concessions to a final draft agreement. In the end, Iran's concerns were attenuated by a provision in the final agreement (passed by Iraq's parliament on November 27, 2008 and now in force as of January 1, 2009) that U.S. forces could not use Iraqi territory as a base for attacks on any other nation. This provision is perceived by some as a statement that Iraq does not support military action against Iran's nuclear program. While Iraqi leaders have expressed in the past that they do not want any of their neighbors to have a nuclear weapon, they have also expressed support for Iran's right to peaceful nuclear technology.⁴²

Prospects

Iran's influence in Iraq remains substantial, but the results of Iraq's recent provincial elections might indicate that this influence is beginning to wane. The influence could fall further as Maliki continues to strengthen and assert Iraq's independence and sovereignty from all influences, including U.S. and Iranian. Some experts have long predicted that Iran's influence would fade as Iraq asserts its nationhood, as the security situation has improved, and as Arab-Persian differences reemerge. Many experts point out that Iraqi Shiites generally stayed loyal to the Iraqi regime during the 1980-1988 Iran-Iraq war. Najaf, relatively secure and prosperous, might eventually meet pre-war expectations that it would again exceed Iran's Qom as the heart of the Shiite theological world.

³⁹ "Iran Offers \$1 Billion Loan for Iraq Projects," *Reuters*, March 1, 2008.

⁴⁰ See Gina Chon, "Iran's Cheap Goods Stifle Iraq Economy," *Wall Street Journal*, March 18, 2009.

⁴¹ "Iraq-Iran Trade Meeting Pledges \$5 Billion," UPI.com, February 12, 2009.

⁴² For example, see "Joint Statement by Gulf States, Egypt, Jordan, Iraq, and U.S.: Ministers Reaffirm Commitment to Promote Regional Peace, Security," U.S. Department of State, available online at <http://www.america.gov/st/texttrans-english/2008/September/20080925155930eaifas0.7949945.html>.

Turkey⁴³

Perspectives and Interests

Turkey and Iran share an almost 500 kilometer (310 mile) border that was established in the 17th century, and they have not been to war since then. Over the years, however, their bilateral relations have been characterized by both conflict and collaboration.⁴⁴ Tensions sometimes surfaced from the neighbors' competing regional ambitions and from their rival forms of Islam: most Turks are Sunnis, while most Iranians are Shiites. After Iran declared itself an Islamic Republic in 1979, some predicted a worsening of relations because the Turkish Republic established in 1923 had abolished the caliphate, the office of the Prophet Muhammad's successors, and adopted a constitution that guaranteed secularism as a basic principle of the state. However, Ankara's pragmatic policy of accepting and officially recognizing the new Islamic Republic speedily and focusing on economic relations proved the forecasters wrong.

The ruling Justice and Development Party (AKP) in Turkey has Islamist roots and a foreign policy doctrine of seeking zero problems with neighbors and of nurturing beneficial relations with all, including Iran. It has continued the realistic pragmatism or pronounced self-interest of its predecessors toward Iran. Since AKP came to power in 2002, Turkish-Iranian relations have expanded. Officials have exchanged numerous visits, culminating in Iranian President Mahmud Ahmadinejad's "working" visit to Turkey in August 2008. The AKP government hosted him in Istanbul, thereby working around Ahmadinejad's antipathy to Turkish secularism by enabling him to avoid a usually obligatory visit in the capital of Ankara to the mausoleum of Mustafa Kemal Atatürk, the founder of the Turkish Republic. Turkish President Abdullah Gül reciprocated by visiting Iran for a regional summit in March 2009, when he met both Supreme Leader Ayatollah Ali Khamene'i and President Ahmadinejad.

Turkey's pragmatism or realpolitik was evident in official reactions to Iran's June 12, 2009, presidential election as President Gül and Prime Minister Recep Tayyip Erdoğan were among the first international leaders to personally congratulate Ahmadinejad on his re-election. Foreign Minister Ahmet Davutoğlu later declared controversies over the outcome to be an internal Iranian affair. AKP's domestic critics charged that these were "reflexive and premature" actions that may have undermined Turkey's stature and credibility as an interest in stability embodied in the status quo appeared to trump values.⁴⁵

Policy Priorities

Turkey seeks to further regional stability and its own national interests in its relations with Iran. Ankara has made common cause with Tehran in seeking to preserve the territorial integrity of Iraq in order to prevent its division into ethnic states that might serve as a model for separatists. Both Turkey and Iran have separatist/terrorist foes who attack them from safe havens in northern Iraq—the Kurdistan Workers Party (PKK) and the Party for a Free Life in Kurdistan (PJAK),

⁴³Prepared by Carol Migdalovitz, Specialist in Middle Eastern Affairs, August 20, 2009.

⁴⁴ See also Gokhan Cetinsaya, "Essential Friends and Natural Enemies: the Historic Roots of Turkish-Iranian Relations," *Middle East Review of International Affairs*, an online journal, Vol. 7. No. 3, September 2003.

⁴⁵ "FM Urges Iranians to Accept Election," *Hurriyet Daily News*, June 23, 2009, and Ilhan Tanir, "Davutoglu, the Architect, Miserably Fails to Deliver," *Hurriyet Daily News*, June 27, 2009.

respectively— and both place a high priority of combating these threats. At the same time, Turkish officials have encouraged Iraqi Kurds to play a greater role in Baghdad in order to help counter what they fear might become excessive Iranian influence over a Shiite-led Iraqi government.⁴⁶ They also may believe that greater involvement in the central government might moderate the Iraqi Kurds' own separatist inclinations.

Turkish officials state that Iran has the right to develop nuclear energy for peaceful purposes and have called on Tehran to cooperate with the International Atomic Energy Agency (IAEA) in order to demonstrate that its nuclear program has peaceful intentions. The Turks do not want Iran to develop nuclear weapons and thereby upset the regional balance of power.

Finally, access to Iran's energy resources is a high priority for Turkey, which imports 70% of all the energy it consumes. Turkey depends on Russia for 68% of its gas supplies and looks to Iran for much of the rest and to lessen that dependence.

Economic and Security Concerns

Turkish-Iranian relations have a very strong economic component. About 1.5 million Iranian tourists visit Turkey annually, visa-free. Trade is growing and reached \$10 billion annually in 2008, with Iranian exports of oil, oil products, and gas to Turkey accounting for \$7.2 billion of the total.⁴⁷ Officials of both governments have said that they hope to increase trade to \$20 billion in five years. A pipeline commissioned in 2001 carries natural gas from Tabriz to Ankara. In 2007, Turkey and Iran signed a memorandum of understanding (MOU) for the state-run Turkish Petroleum Corporation (TPAO) to be granted the right to develop natural gas fields in South Pars, to extract up to 20 bcm of additional gas, and to transport it via a new 1,850 kilometer pipeline to Turkey. Turkey is to invest an estimated \$3.5 billion and receive 50% of the gas produced. Both governments hope that the new pipeline will eventually link with the planned 3,300-kilometer Nabucco pipeline. Scheduled to be completed in 2014, Nabucco is intended to carry natural gas from the Caspian region via Georgia and Turkey to Austria, bypassing Russia. Iranian gas has the potential to make Nabucco more viable especially if Russia dissuades the Central Asian states from using it and China competes for their resources as well. However, the European partners in Nabucco (Hungary, Bulgaria, Romania, Germany, and Austria) have declared, "No Iranian gas will be accepted unless the nuclear problem is solved" and U.S. Special Envoy for Eurasian Energy Ambassador Richard Morningstar has stated, "At present, we do not support Iran's participation in the project."⁴⁸ Turkey opposes all energy-related sanctions on Iran mainly because of its energy needs.

In addition, in 2007, Turkey signed an MOU to build three natural gas-fired power plants in Iran and to import 3 to 6 billion kilowatt hours of electricity annually. That deal has not been finalized. In private, Turkish officials increasingly voice security concerns about a nuclear-armed Iran and about the impact that such a development would have on the regional balance of power. They note that Turkey is Iran's closest neighbor and easily within range of its missiles -- even though Iran has not threatened Turkey. In public, however, Prime Minister Erdogan and President Gul have criticized the West's policy on the issue. In November 2008, Erdogan told a Brookings

⁴⁶ Anonymous comments of Turkish official, April 20, 2009.

⁴⁷ Barcin Yinanc and Mustafa Oguz, "Turkey Rolls its Diplomatic Dice," *Turkish Daily News*, August 14, 2008.

⁴⁸ "Austria Says Turkey's Position in Nabucco Limited," *Turkish Daily News*, May 23, 2008 and "Turkish Minister, US Envoy Discuss Gas Pipeline Project," *Anatolia News Agency*, June 4, 2009

Institution audience, “We do not find it correct to tell just one country to scrap nuclear weapons. We do not think this is an honest approach. Whoever has nuclear weapons should scrap them first then let us all be rid of them.”⁴⁹ The two leaders put Turkey forward as a possible mediator between Iran and the United States.⁵⁰ Gul noted “the need for the Western world to understand Iran’s security apprehensions about its regime” as well as Iran’s “need to persuade the Western world that it is not seeking the nuclear weapon and that all its researches are within the peaceful framework.”⁵¹ Ahmadinejad has said that there was no need for Turkish mediation.

Due to their common security concerns about Kurdish separatists, the Turkish and Iranian armed forces have conducted joint operations against the PKK and PJAK in northern Iraq.

Prospects

Turkey is likely to consult closely with like-minded Arab Sunni powers, such as Saudi Arabia and the United Arab Emirates, concerning the impact of Iran’s nuclear weapons’ ambitions on the regional balance of power. Should Iran acquire nuclear arms, Turkey could, as a NATO member, rely on NATO defense guarantees if it believes them to be credible.⁵² If it does not have that belief, Turkey could develop its own nuclear weapons program. Turkey already has plans for nuclear power plants and the technical abilities needed for a weapons program. At the same time as it pursues this path, Turkey is likely to continue to cultivate good relations with Tehran because of its energy needs.

Afghanistan⁵³

Perspectives and Interests

As it attempts to stabilize Afghanistan, nearly eight years after the United States helped Afghan militias overthrow the Taliban, the Obama Administration sees Iran as potentially helpful to its new strategy for Afghanistan, announced March 27, 2009. The U.S. special representative for Afghanistan and Pakistan, Ambassador Richard Holbrooke, has advocated a “regional” component of the strategy, which focuses primarily on Pakistan but also envisions cooperation with Iran to help keep Afghanistan calm.

⁴⁹ Transcript of speech accessible via <http://www.brookings.edu>.

⁵⁰ During her visit to Turkey in March 2009, Secretary of State Hillary Rodham Clinton told a television interviewer, “We are going to ask for your help in trying to influence Iranian behavior.” Borzou Daragahi and Ramin Mostaghim, “U.S.-Turkey-Iran Talks Envisioned; ‘The Term ‘Mediation’ is Used,” *Los Angeles Times*, March 10, 2009. U.S. Ambassador to Turkey James Jeffrey reported that, President Gul had conveyed a message from Washington to Tehran that the United States is “serious on talking about issues like Afghanistan and Iraq” during his March 2009 visit to Iran. “Turkish President Sends Message of U.S. Sincerity to Iran,” *Hurriyet Daily News*, March 12, 2009.

⁵¹ Interview with President Abdullah Gul by Ghassan Sharbil, date not given, *Al-Hayat*, May 13, 2009, Open Source Center Document, GMP20090513825009.

⁵² Turks might be skeptical of NATO’s guarantee because some NATO members (Germany, France, Belgium) were reluctant to assist Turkey before the war against Iraq in 2003, and only after considerable pressure from other members did the alliance deploy AWACS early warning planes and, on its behalf, the Netherlands did send Patriot missiles to Turkey. NATO’s response was more united before the first Gulf war in 1991, when several member states sent warplanes, men, and missiles to defend Turkey and deter Saddam Hussein.

⁵³ Prepared by Kenneth Katzman, Specialist in Middle Eastern Affairs, June 2009.

Policy Priorities

Iran and U.S. interests in Afghanistan, while in many ways coincident, are not identical. Iran perceives its key national interests in Afghanistan as exerting its traditional influence over western Afghanistan, which Iran borders and was once part of the Persian empire, and to protect Afghanistan's Shiite minority. Iran's assistance to Afghanistan has totaled about \$1.164 billion since the fall of the Taliban, mainly to build roads and schools and provide electricity and shops to Afghan cities and villages near the Iranian border. This makes Iran among the top financial donors to Afghanistan and is in many ways supportive of the U.S. policy of attempting to pacify Afghanistan in part through economic development.

Economic and Security Concerns

In public statements, in part because of the economic development work done by Iranian firms, President Hamid Karzai has, at times, called Iran a "friend" of Afghanistan. Karzai received Iranian President Mahmoud Ahmadinejad in Kabul in August 2007. Iran did not oppose Karzai's firing of Iran ally Ismail Khan as Herat governor in September 2004, although Iran has opposed the subsequent U.S. use of the Shindand air base,⁵⁴ which Iran fears the United States might use to attack or conduct surveillance against Iran. During his visit to the United States in May 2009, Karzai said he had told both the United States and Iran that Afghanistan must not become an arena for the broader competition and disputes between the United States and Iran. Karzai has expressed support for Iran's right to pursue nuclear technology for peaceful purposes.⁵⁵

At other times, the two countries have had disputes over Iran's efforts to expel Afghan refugees. About 1.2 million remain, mostly integrated into Iranian society, and a crisis erupted in May 2007 when Iran expelled about 50,000 into Afghanistan. About 300,000 Afghan refugees have returned from Iran since the Taliban fell.⁵⁶

Reportedly, Iran has sporadically offered support for Taliban and other militants in Afghanistan. The State Department report on international terrorism for 2008, released April 30, 2009, said Iran continues to provide some training to and ships arms to "selected Taliban members" in Afghanistan. Weapons provided, according to the State Department report, include mortars, 107mm rockets, rocket-propelled grenades, and plastic explosives. Several shipments of such weapons were captured by the U.S. military in Afghanistan in 2007. Secretary of Defense Gates testified before the Senate Armed Services Committee in late January 2009 that the Defense Department had seen a slight increase in Iranian shipments of arms into Afghanistan in the few preceding months.⁵⁷

⁵⁴ Rashid, Ahmed. "Afghan Neighbors Show Signs of Aiding in Nation's Stability." *Wall Street Journal*, October 18, 2004.

⁵⁵ Comments by President Karzai at the Brookings Institution. May 5, 2009.

⁵⁶ Iran-Iran: Focus on Repatriation of Afghan Refugees," *IRIN*, October 5, 2009.

⁵⁷ Testimony of Secretary of Defense Robert Gates to the Senate Armed Services Committee, January 27, 2009. Transcript available online at <http://armed-services.senate.gov/Transcripts/2009/01%20January/A%20Full%20Committee/09-02%20-%201-27-09.pdf>.

Prospects

Others see Iran as a marginal player in Afghanistan, because it is identified primarily with non-Pashtuns and its links to Taliban fighters are tenuous and sporadic. Those who take this view question whether U.S. engagement with Iran would contribute much to solving the core problems plaguing the U.S. mission there. Still others believe that talks with Iran on Afghanistan could lead to broader U.S.-Iran talks, or potentially even open up the possibility of using Iran as a supply line for non-U.S. NATO forces in Afghanistan. Secretary of State Clinton made a point of announcing that Iran would be invited to the U.N.-led meeting on Afghanistan at the Hague on March 31, 2009. At the meeting, Special Representative Holbrooke briefly met the Iranian leader of his delegation to the meeting, and handed him a letter on several outstanding human rights cases involving Iranian-Americans. At the meeting, Iran pledged cooperation on combating Afghan narcotics and in helping economic development in Afghanistan—both policies Iran is already pursuing to a large degree.

Egypt⁵⁸

Perspectives and Interests

Throughout history, Egypt and Iran have, at times, been fierce rivals, a natural outgrowth of the region's balance of power. Egypt envisions itself as the standard-bearer of Arab nationalism, and Persian Iran serves as a foil. During the Cold War, Egypt was militarily aligned with the Soviet Union while Iran was a U.S. client state. Then, in the late 1970s, as a result of the Camp David Peace Accords and the Iranian revolution, Egypt and Iran essentially traded places in their regional allegiances. Egypt's peace treaty with Israel resulted in a much closer relationship with the United States, while Iran's revolutionary theocratic government perceived the United States, its moderate Arab allies, and Israel as its primary adversaries in the Middle East, and Iran developed a closer relationship with Russia. For over 30 years, this pattern has persisted and, in recent years, new dimensions have been added to the Egyptian-Iranian rivalry.

Iran and Egypt severed diplomatic ties in 1980, a year after the Iranian revolution. Iran not only objected to Egypt's peace treaty with Israel, but also to its hosting of the deposed Shah and its support for Iraq during the 1980-1988 Iran-Iraq war. As a provocation, Iran applauded the assassination of former Egyptian President Anwar Sadat, naming a street after the assassin (Khalid Islambouli). The Egyptians have insisted that this street be renamed and the mural of Islambouli along side it be removed before normal ties can be restored.

Policy Priorities

Currently, Egypt is concerned about Iran's support for Palestinian militants, particularly Hamas, Iran's influence in Iraq, and Iran's nuclear program. Hamas's control of the Gaza Strip poses a challenge for neighboring Egypt. Hamas's call for armed resistance against Israel and its alleged Iranian financial and military support⁵⁹ runs counter to Egypt's foreign policy, which is largely based on its peace treaty with Israel and friendly relations with the United States.

⁵⁸ Prepared by Jeremy M. Sharp, Specialist in Middle Eastern Affairs, June 2009.

⁵⁹ In the aftermath of Israel's Operation Cast Lead in Gaza between December 2008 and January 2009, Hamas (continued...)

A nuclear-armed Iran and its effect on the regional balance of power is a pressing security concern. Egypt firmly opposes Iran's nuclear ambitions, and, as is the case with its stance toward Israel's clandestine nuclear program, Egypt has called for a "nuclear-free zone" in the Middle East. Egypt is a signatory to the Nuclear Non-Proliferation Treaty (NPT) and has pledged not to develop weapons programs of its own. It also has rebuffed U.S. talks of a nuclear shield protecting Gulf states and possibly Egypt from an Iranian attack.

In 2006, the Mubarak government announced its own intention to develop a civilian nuclear energy program.⁶⁰ To date, progress on its development has been slow, and most experts expect that it will be at least a decade before the construction of nuclear power plants will be completed. Although Egypt may have legitimate energy shortfalls that are driving the pursuit of nuclear energy, most analysts suspect that concern over Iran's quest for nuclear weapons is behind the Egyptian initiative.

Economic and Security Concerns

Between 2007 and 2008, for reasons not entirely clear, Egypt and Iran began a dialogue to tentatively explore improving bilateral relations. During that period, Iran had been reaching out to a number of Sunni Arab states, as some commentators called it a charm offensive designed to assuage fears of its regional ambitions and nuclear program. Egypt may also have been looking to raise eyebrows in U.S. policymaking circles, hoping that its independent initiative with Iran might draw more Bush Administration attention and political support at a time when relations had been strained due to U.S. concerns about human rights in Egypt.

In December 2007, Iranian National Security Council Chief Ali Larjani, a close aide to Ali Khamanei, visited Egypt and held talks with President Mubarak. As a follow up, on January 30, 2008, Mubarak held talks with Iran's then Majles (parliament) Speaker Gholam Ali Haddad Adel in Cairo. Adel was the first senior Iranian parliamentary official to conduct high-level talks with Egyptian counterparts in three decades. At the end of March 2008, Former Iranian President Mohammed Khatami visited Cairo for additional discussions.

However, the supposed Egypt-Iran rapprochement was short-lived, as neither side appeared ready to reconcile differences. In July 2008, an Iranian group, the Committee for Commemoration of Martyrs of Global Islamic Movement, re-edited an old *Al Jazeera* documentary on the murder of former Egyptian President Anwar Sadat and released it publicly as a new documentary entitled, "Execution of a Pharaoh." The film positively portrayed Sadat's assassin as a martyr. Although

(...continued)

reportedly sought Iranian military assistance in replenishing and upgrading its stockpiles. According to one report in *Jane's Defence Weekly*, an arms convoy destroyed by Israeli aircraft while transiting through Sudan on its way to the Egypt-Gaza border was carrying Iranian-supplied Russian Iglas (SA-16 'Gimlet') and Igla (SA-18 'Grouse') surface-to-air missiles (SAMs) as well as what the security and intelligence sources said were Stinger missiles. See, "Iran was Source of Hamas SAMs Destroyed in Sudan Airstrike," *Jane's Defence Weekly*, April 3, 2009.

⁶⁰ Egypt's nascent nuclear program was frozen in 1986 following the accident at the Chernobyl power plant in the Ukraine; however, it maintained a small experimental nuclear reactor. In May 2009, the International Atomic Energy Agency (IAEA) reported that it had found traces of highly enriched uranium in Egypt. Egypt is a signatory to the Nuclear Non-Proliferation Treaty (NPT) that allows for the peaceful production of nuclear energy. In 2005, the IAEA investigated Egypt's nuclear activities and concluded that Egypt had conducted atomic research but that the research did not aim to develop nuclear weapons and did not include uranium enrichment. Egypt admitted to failing to disclose the full extent of its nuclear research activities to the IAEA.

Iran attempted to distance itself from the film, relations again soured. In October 2008, Egyptian Foreign Minister Ahmad Abu-al Ghayt warned Iran that anyone “who intervenes in Egypt’s internal affairs will not be happy with the response they receive. The Iranians cannot interfere in our internal affairs.”⁶¹

Although Egyptian-Iranian relations have been cool for decades, tensions remained relegated to the diplomatic and cultural spheres. Iran and Egypt maintain a limited economic relationship, with bilateral trade estimated at \$99 million in 2008.⁶² However, in April 2009, the discovery of an alleged Hezbollah military cell in Egypt significantly heightened tensions. On April 8, 2009, the Egyptian government declared that it had uncovered a 49-person Hezbollah “cell” clandestinely operating in Egypt. According to authorities, cell members had been monitoring ship traffic at the Suez Canal and were planning terrorist attacks against Sinai tourist resorts, particularly those frequented by Israelis. Egypt also accused Hezbollah of smuggling weapons to Hamas along the Egypt-Gaza border and spreading “Shi’ite ideology” inside Egypt. On April 10, Hezbollah chief Sheikh Hassan Nasrallah acknowledged that one of the plotters in custody had been dispatched to Egypt to conduct “reconnaissance” for Hezbollah.

Prospects

The revelation of a Hezbollah cell serves Egyptian interests in several ways. First, it draws a sharp contrast between it and Iran, the primary U.S. and Israeli adversary in the region. By demonstrating that Egypt is a direct target of Iran’s regional meddling, Egypt may hope to rally other moderate Arab states behind it, while placing Iran’s Arab allies (such as Hezbollah, Hamas, Syria, and Qatar) on the defensive. Egypt also may be trying to discredit arguments for diplomatic engagement with Iran by taking a harder line.

The cell’s “discovery” also comes nearly two weeks after *CBS News* reported that, in January 2009 - at the height of Israel’s Operation Cast Lead in Gaza - the Israeli Air Force allegedly had conducted an air strike against trucks driving from Sudan to Egypt, carrying Iranian-supplied weapons bound for Hamas militants. News of Israel’s air strike may have temporarily embarrassed Egypt, which, as a result, may have been eager to demonstrate its resolve to act decisively against Iranian intelligence and weapons smuggling in its sphere of influence. Finally, Egyptian leaders had been eager to retaliate against Iranian-backed Hezbollah after the Lebanese Shiite organization called for the overthrow of the Mubarak regime for its alleged lack of support to Palestinians in Gaza during Israel’s Operation Cast Lead between December and January 2009.

Overall, so long as Iran pursues a nuclear program and continues to strongly back Hamas and Hezbollah, Egypt will feel threatened and will work to counterbalance Iranian policy. However, a direct confrontation appears highly unlikely. For now, Iran will use non-state actors to provoke and pressure Egypt, while the Mubarak government will continue to rally other Sunni Arab states around its mantle of leadership to keep Iran in check. Egypt also will continue to demand that Israel and the United States prioritize the Arab-Israeli peace process in order to reduce the allure of Iran’s so-called axis of resistance.

⁶¹ "Egypt Wary of Iran's Perceived Growing Influence in Region," *Open Source Center*, November 5, 2008, pp. GMP20081105425001 Egypt, Iran -- OSC Report in English .

⁶² International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

Syria⁶³

Perspectives and Interests

For over 30 years, close Syrian-Iranian relations have been a mainstay of Middle East power politics. Starting with the 1979 Iranian revolution and spanning the 1980-1988 Iran-Iraq war, the arming and training of Shiite militias in Lebanon after Israel's invasion in 1982, and the maturation of Palestinian militant groups such as Hamas over the last decade, Syria-Iran ties have grown stronger, as both governments have built an alliance based on shared strategic interests rather than shared cultural and religious affinities.⁶⁴ Though their partnership has changed over the years, with Syria now serving as the junior partner, both sense that their self-described "axis of resistance" is becoming more powerful, as their non-state proxies, Hezbollah and Hamas, exercise more influence on the politics of the region.

Nevertheless, many observers continue to question the permanence of a Syrian-Iranian alliance, as some analysts assert that Syrian foreign policy is essentially pragmatic rather than revolutionary. They argue that should a solution to the Israeli-Palestinian conflict emerge, Syria would end its policy of resistance and join other Arab states in making peace with Israel. Other experts suggest the foundation of the Syrian-Iranian relationship—a shared concern over Iraq, support for Hezbollah in Lebanon, and countering Israel—is deeply rooted in the geopolitics of the region and cannot be easily overturned.

Policy Priorities

From a military and economic standpoint, Syria is a weak state, but its active support of Palestinian, Lebanese, and Iraqi militants/terrorist groups gives it a disproportionate regional role. Syria is surrounded by powerful U.S.-allied neighbors (Israel and Turkey and Iraq) whom Syria seeks to counter through its own alliances. Though Syria's self image is pan-Arab and the majority of its citizens are Sunni Arabs, predominantly Persian Shiite Iran has a similar foreign policy outlook, creating the foundation for close relations.

The Asad regime's primary policy priority is to control Lebanon either directly or indirectly. Many hard-line Syrian nationalists consider their smaller, weaker neighbor to be an appendage of a greater Syrian nation and an artificial French colonial creation. In order to wield substantial influence in the byzantine world of Lebanese confessional politics, Syria needs allies, particularly now that it no longer occupies the country. Iranian-backed Hezbollah, the Lebanese Shiite terrorist group/militia/political party/charitable organization, serves as Syria's primary local partner. Without Hezbollah, Syria would have far more difficulty influencing Lebanese politics.

The Syrian-Hezbollah partnership also is valuable to Iran. According to the U.S. State Department's 2008 Country Reports on Terrorism, Syria allowed Iran to use its territory as a transit point for weapons bound for Hezbollah. Hezbollah provides Iran with an entree into the Levant, allowing it to project power far beyond its immediate borders and to threaten Israel by

⁶³ Prepared by Jeremy M. Sharp, Specialist in Middle Eastern Affairs, June 2009.

⁶⁴ Jubin M. Goodarzi, *Syria and Iran: Diplomatic Alliance and Power in the Middle East* (New York: Tauris Academic Studies, 2006).

proxy. As long as Israel still occupies the Golan Heights, Syrian leaders apparently believe that this serves Syrian interests as well.

Economic and Security Concerns

Though the Syrian-Iranian relationship is primarily a diplomatic alliance, Iranian trade with and investment in Syria (or at least the appearance of them) have somewhat expanded in recent years, perhaps partially in response to Western policymakers' attempts to woo Syria away from Iran. In the financial sector, Iran has stated its intention to establish a joint Iranian-Syrian bank, possibly involving Bank Saderat and the Commercial Bank of Syria – entities which have been sanctioned by the U.S. Treasury Department. In the manufacturing and industrial sectors, the Iran Khodro Industrial Group has established two car assembly plants in Syria. Iranian companies also have invested in concrete production, power generation, and urban transportation. In the energy sector, Syria, Iran, Venezuela, and Malaysia established a joint petroleum refinery in Homs, Syria. In addition, Iran, Turkey, and Syria reached a new natural gas deal that would allow Iran to export 105 billion cubic feet of natural gas annually to Syria via Turkey. Despite increased Iranian investments, the overall volume of Iranian-Syrian trade remains low. According to the *Economist Intelligence Unit*, bilateral trade may total between just \$160 and \$400 million.⁶⁵

Prospects

Barring a major change in Lebanese affairs or a breakthrough in Israeli-Palestinian peace negotiations, Syrian-Iranian relations will most likely remain strong. Nevertheless, some experts suggest that the alliance has its weak points, and that Western and moderate Arab governments should try to exploit them. Although it is difficult to discern the true state of Iranian-Syrian relations due to the opaque nature of both regimes, tensions may have developed over the issue of Syrian peace talks with Israel. After Syria attended the November 2007 U.S.-sponsored Annapolis peace conference, one Syrian media outlet asserted that it was Syria's right to pursue its own interests, stating that it was "fine for Syria to knock at doors that appear closed, as there is often someone inside to open [them]."⁶⁶ According to a report by the Washington Institute for Near East Policy, "Iranian officials have likewise issued public warnings to the Assad regime not to go too far in these discussions. In June 2008, a senior advisor to Supreme Leader Ayatollah Khomeini cautioned Syria of the consequences of peace on its relations with Tehran."⁶⁷

The Saudi media has focused on exploiting tensions in Iranian-Syrian relations. In 2008, the London-based, Saudi-owned *Al Hayat* pan-Arab daily noted that Syrian President Bashar al Asad's recent visit to Tehran had been a "failure" in reassuring Iran of his intentions regarding indirect Syrian-Israeli peace talks. According to the report, "sources told *Al Hayat* that these reports contain information, not sheer speculation or analysis, that Syrian President Bashar al Asad's recent visit to Tehran was not successful with regard to the stand on the Syrian-Israeli negotiations.... The same reports added that the Iranian concerns prompted Iran to ask the Syrian

⁶⁵ "Syria economy: Iran bank deal?," *Economist Intelligence Unit*, October 14, 2008.

⁶⁶ Open Source Center Report, "Iran-Syria -- Leaders Hail Ties; Syrian-Israeli Talks Cause Concern," August 8, 2008, IAP20080808570001 Iran-Syria -- OSC Report in English.

⁶⁷ David Schenker, *Decoupling Syria from Iran: Constraints on U.S.-Syrian Rapprochement*, Washington Institute for Near East Policy, Jerusalem Issue Briefs, December 2008.

side a lot of questions during al Asad's visit, which did not end in an agreement. In fact, these reports used the phrase ‘the failure of the visit.’”⁶⁸

Finally, some experts have speculated that, after the February 2008 assassination in Damascus of Hezbollah terrorist operative Imad Mughniyeh, Syrian-Iranian-Hezbollah relations were badly strained. Mughniyeh was killed by a car bomb in a tightly-controlled area of Damascus, and some analysts have suggested that, despite the widespread belief that Israel carried out the assassination, Hezbollah or Iran may have held Syria directly or indirectly responsible. Several months later, General Mohammed Suleiman, one of President Asad’s trusted advisors, was shot dead at a resort on the Mediterranean coast by a sniper from the sea. Suleiman was in charge of overseeing Iranian arms transfers to Hezbollah via Syria. According to Syria expert Andrew Tabler, “The major issue now facing Syria is its relationship with Iran and Hezbollah and how it can reconcile that with talking to Israel...The assassination means there is a power struggle going on in Syria and it most probably concerns Iran. People like this don't just die unless something is going on.”⁶⁹

The future direction of Hezbollah may hold the key to the strength of the Syrian-Iranian alliance. The group has multiple aims, as it seeks to balance an anti-Israel, pro-Iranian revolutionary regional agenda while appearing to uphold both Lebanese national interests and the independent interests of its Shiite constituents. Sometimes it succeeds in merging these agendas, as when Hezbollah claims it is acting as a national liberation movement struggling to free Lebanon from Israeli occupation, even after Israel’s 2000 withdrawal from the south. Other times, particularly after its 2006 war with Israel, critics of Hezbollah have been successful in blaming it for wreaking havoc on the state itself and serving as a pawn of foreign, in this case Iranian and Syrian, interests.

Although many analysts charge that Hezbollah’s ties to Iran are immutable, others believe that Hezbollah seeks greater independence from its Iranian and, to a lesser extent, Syrian patrons. According to a recent RAND study, “Hezbollah statements suggest that it does not consider its interests to be in perfect alignment with those of Iran, and its behavior reaffirms this assessment—Hezbollah continues to focus its energies on internal Lebanese politics.”⁷⁰ For now, Hezbollah remains a hybrid organization with a militia, an intelligence apparatus, terrorist capabilities, charities, private companies, religious institutions, and a political party. For Hezbollah to evolve into a strictly non-violent movement, a Lebanese-Israeli peace treaty would have to be signed. Should that occur, however unlikely, some experts assert that without a common enemy (Israel) binding them together, Iran, Syria and Hezbollah’s interests would diverge, and Syria would perceive Hezbollah more as a competitor for control over the Lebanese political scene. In this scenario, Syria and Iran would find themselves without a common proxy advancing their mutual interests.

⁶⁸ BBC Monitoring Middle East, "Iran concerned about Israel-Syria talks Arabic article," August 10, 2008, Al-Hayat website, London, in Arabic 10 Aug 08/BBC Monitoring.

⁶⁹ "Middle East: Top Assad Aide Assassinated at Syrian Resort," *The Guardian*, August 5, 2008.

⁷⁰ RAND, *Dangerous but not Omnipotent: Exploring the Reach and Limitations of Iranian Power in the Middle East*, 2009.

Lebanon⁷¹

Perspectives and Interests

Lebanon, and in particular Lebanon's Shiite population, have looked to Iran for financial support and political backing since (at least) 1982. At the time of the Iranian Revolution, Lebanon was engulfed in a civil war (1975-1990). As part of his policy to export the revolution, the founder of the Islamic Revolution of Iran, Ayatollah Ruhollah Khomeini, reached out to Lebanon's Shiites, who had long felt underserved and underrepresented in Lebanon. During the Israeli invasion of Lebanon in 1982, Iran sent a contingent of Pasdaran security forces into Lebanon. The force armed and trained Shiite militia groups that later formed the terrorist organization Hezbollah, and provided medical attention and other services to Lebanese affected by the Israeli invasion.

Iran's support for Lebanese Shiites during the civil war cemented a partnership that both sides consider mutually beneficial. Hezbollah requires outside funding and military support and Iran requires a proxy to pressure Israel and the United States. Iran is one of a number of regional actors vying for influence in Lebanon, and Lebanon's policy priorities reflect this reality.

Policy Priorities

During the Syrian occupation of Lebanon (1976-2005), Lebanese-Iranian relations paralleled Syria's relationship with Iran. Since Syrian withdrawal from Lebanon in 2005, Lebanon's politics have reflected the sectarian realities in Lebanese politics and Lebanon's policy toward Iran has changed little. Iranian support for Shiites in Lebanon (and Hezbollah in particular) serves as a counterpoint to Saudi Arabian support for Sunni groups. This foreign patronage, when considered along with Lebanon's consensus government, requires that any Lebanese government maintain a friendly relationship with all regional actors to avoid upsetting the delicate political balance among its religious sects and political parties.

Some analysts argue that Syria's withdrawal from Lebanon left a power vacuum that has been filled by Iran via its proxy Hezbollah. Others argue that, despite initial concerns following Hezbollah's 2008 siege of Beirut, the outcome of the June 2009 parliamentary elections represented a setback for Iranian influence in Lebanon and in the Levant.⁷² Regardless, as long as Lebanese politics includes a stake for Shiites and, most of all, Hezbollah, the Lebanese government, whatever its composition, will likely maintain a friendly orientation toward Iran. The Lebanese government has supported Iran's right to peaceful nuclear energy and has not articulated any official concerns about a possible Iranian nuclear weapons program.

Economic and Security Concerns

Trade between Iran and Lebanon is limited. The International Monetary Fund (IMF) estimated it at \$192 million in 2007 and \$247 million in 2008.⁷³ Iran and Lebanon also established a joint

⁷¹ Prepared by Casey L. Addis, Analyst in Middle Eastern Affairs, September 2009.

⁷² For official election results, see <http://www.elections.gov.lb/>. For a detailed analysis of the election outcome, see Richard Chambers, "Lebanon's June 7 Elections: The Results," International Foundation for Election Systems (IFES). Available online at http://www.ifes.org/files/IFES_LebanonReview060709Results.pdf.

⁷³ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009.

economic commission to expand economic cooperation and bilateral ties. During a meeting in March 2009, then-Lebanese Prime Minister Fouad Siniora stated that “There are lots of grounds for the growth and expansion of commercial, industrial, infrastructure, and tourism cooperation between the two countries, and our relations have to expand on a daily basis, therefore.”⁷⁴

Official trade statistics do not include Iranian support for Hezbollah, which many analysts expect is substantial. Prior to Lebanon’s June 7, 2009 parliamentary elections, Iran announced that it would provide Hezbollah and its allies with \$600 million in aid, heightening concerns about Iran’s material support for Hezbollah.⁷⁵

Other events indicate that Iran might also aim to increase its influence among non-Shiites in Lebanon. Lebanon’s primary security concern is Israel. In spite of efforts on the part of the Lebanese government and the international community to strengthen the Lebanese Armed Forces, many Lebanese perceive Hezbollah as the best line of defense against possible Israeli attacks along Lebanon’s southern border. In what appeared to be an attempt to improve the standing of Hezbollah and its allies ahead of the parliamentary elections, Iran reportedly offered to provide arms and financial support to the Lebanese Armed Forces “without conditions.” No official agreement materialized.⁷⁶

Prospects

Since the civil war ended in 1990, Hezbollah, backed by Iranian largesse, has expanded its role in Lebanese politics. Many analysts, and some among Lebanon’s non-Shiite groups, argue that Hezbollah’s 2006 war with Israel and 2008 siege of Beirut demonstrate its growing strength in Lebanese domestic politics and its ability to act as a spoiler of Western interests in the region. These analysts have expressed concerns about the future of stability in Lebanon and the region if Hezbollah were backed by the promise of an Iranian nuclear device.

In Lebanon, Sunnis and some Christians have expressed similar fears.⁷⁷ As the regional influence of Iran grows, so does Hezbollah’s strategic depth. Lebanese politics and policies are built around the national memory of the civil war, and any prospect for a change in Lebanese politics or a shift of power balance in the region underscores fears that Lebanon could again become a theater of regional conflict, especially if international efforts to curb Iran’s nuclear program fail, or if Israel decides to take military action against Iran.

⁷⁴ U.S. Open Source Center (OSC) Document IAP20090312950001, “Lebanese PM Stresses Importance of Strengthening Economic Ties with Iran,” Tehran *IRNA*, March 12, 2009.

⁷⁵ U.S. Open Source Center (OSC) Document IAP20081216605003, “Iran Offers \$600 million in Election Financial Aid to Lebanese Hizballah,” *Tabnak* in Persian, December 15, 2008.

⁷⁶ “Hezbollah: Iran to support Lebanon,” AlJazeera.net, May 30, 2009.

⁷⁷ See, for example, U.S. Open Source Center (OSC) Document GMP20090615966007, “Lebanese Divided over Iran’s Presidential Election,” *The Daily Star* (Beirut), June 15, 2009 and David Samuels, “The Year of the Elephant,” *The New Republic*, May 20, 2009.

Palestinians⁷⁸

Perspectives and Interests

Since its 1979 Islamic Revolution, Iran has at least rhetorically, and at times materially, supported the Palestinian national cause. Because Iran and its population were relatively remote from the Arab-Israeli conflict—Iran does not border Israel or the Palestinian territories, it had not been a party to any of the Arab-Israeli wars, and most Iranians are not Arab—many analysts believe that the Islamic Republic’s adoption of the Palestinian cause after the 1979 revolution was calculated to persuade Sunni and Shiite Arab populations throughout the region that the Iranian regime more truly embodies the principles of Islamic leadership than the traditional Sunni Arab states of the region.⁷⁹ Other reasons—geopolitical competition with Israel and the United States, sympathy for the Palestinians as “victims of neo-colonialism” (given Iran’s sensitivity to foreign involvement in its own affairs), religious and civilizational opposition to a Jewish/Zionist stronghold in a predominantly Muslim region—also are possible.

Dating back to when the late Yasser Arafat and the Palestine Liberation Organization (PLO) were in exile, the Palestinians have been historically ambivalent about openly accepting Iranian support for their national cause. While Arafat courted Ayatollah Khomeini’s support at times,⁸⁰ he preferred to associate himself publicly with fellow Sunni Arab leaders (including Iran’s enemy Saddam Hussein), and later developed greater ties with the West and engaged Israel through the Oslo “peace process.” Arafat’s engagement of Israel led Iran to refocus its efforts on influencing Palestinian groups that rejected Oslo—particularly Hamas, but also Palestinian Islamic Jihad and others—and that sought to derail efforts to forge peace with Israel on terms that they and Iran found objectionable. Since then, Hamas has grown significantly in influence—from the political margins to rivaling Arafat’s Fatah movement in preeminence.

Mahmoud Abbas, Arafat’s successor as PLO Chairman, Palestinian Authority (PA) President, and the head of Fatah, is clearly opposed to Iranian influence in Palestinian politics. From the viewpoint of Abbas and his allies, Iran has sowed factional and geographical division among Palestinians at a time when assembling credible, unified leadership to deal with Israel is vitally important. Analysts might conclude that the threat Iran poses to Israel—with its nuclear program and its support of militant groups such as Hamas and Hezbollah—has greatly increased the difficulty of Abbas’s task of marshaling and sustaining international political will sufficient to persuade Israel to (1) abandon its control over Palestinian territory and (2) agree to Palestinian statehood in both principle and fact. Official representatives of the PLO and PA limit their statements on Iran to its role in internal Palestinian affairs, and thus have not taken a public position on the nuclear issue.

Some Palestinians who are skeptical of the Arab-Israeli peace process, however, believe that Iranian support for Palestinian militants and Hezbollah provides needed leverage with Israel that

⁷⁸ Prepared by James Zanotti, Analyst in Middle Eastern Affairs, June 2009.

⁷⁹ Iran’s elite “Quds Force” unit of the Iranian Revolutionary Guard Corps, which is responsible for training Iran-allied paramilitary groups throughout the region, is named after the Arabic/Persian word for Jerusalem (“Quds” or “Ghods”)—a sign that Iran identifies its own strategic interests with the broader struggle throughout the Muslim world to “liberate” Jerusalem.

⁸⁰ For example, Arafat and the PLO reportedly assisted forces opposed to the Shah’s rule, and after the Iranian revolution’s success in 1979, Khomeini transformed the vacant Israeli embassy in Tehran into an embassy for the PLO.

the United States and Europe are unlikely to deliver to Abbas. Yet, even though Hamas welcomes Iranian assistance, and even though Iran's reputation among Arab populations has arguably been bolstered in recent years by its anti-Western and anti-Israel positions and rhetoric, many believe that Hamas and Iran intentionally maintain a measure of distance from one another. An alternate interpretation is that they merely understate the extent of their ties. They appear to understand the importance of Hamas maintaining an image among its domestic constituents as an authentic Palestinian offshoot of the Muslim Brotherhood, instead of as an Iranian proxy—owing to the ethnic, sectarian, and linguistic differences between Palestinians (who are predominantly Sunni Arabs) and Iranians (who are mostly Shiite and non-Arab).

Policy Priorities: Hamas's Role

Iran's future influence over the Palestinian political scene seems tied to Hamas's fortunes, which have been on the rise since Hamas's political emergence in the late 1980s (and were accentuated by its victory in Palestinian Legislative Council elections in 2006). By consolidating its control over Gaza and pursuing popular support through resistance to Israel, Hamas appears to seek legitimacy by establishing its indispensability to any Arab-Israeli political arrangement. Many analysts believe that Hamas hopes to leverage this indispensability into sole or shared leadership of the PA in both the West Bank and Gaza—either through a unity arrangement with Abbas and his Fatah movement, or through presidential and legislative elections (which are supposed to take place in early 2010 at the latest)—and to gain membership in or somehow supplant the PLO, which remains internationally recognized as the legitimate representative of the Palestinian people.

Since its takeover of Gaza, however, some polls indicate that Hamas's popularity has suffered. Some analysts attribute this to doubts among Palestinians that Hamas is as incorruptible or as committed to ordinary people's best interests as was thought in 2006, partly due to the realities of governing and to certain of Hamas's practices (i.e., smuggling goods through tunnels from Egypt, provoking harm to Gazan civilians by firing on Israeli targets from dense urban populations during the 2008-2009 Gaza conflict).

Abbas and Fatah hope to regain influence in Gaza and to neutralize Hamas's ability to act as a peace process spoiler. To that end, they have alternated between, and sometimes have simultaneously pursued, (1) mobilization of international support for a Palestinian state to undercut Hamas's appeal to Palestinian peace process skeptics and (2) engagement in intermittent, Egyptian-brokered national unity discussions with the aims of integrating Hamas more fully into PA institutions and of ending or reducing Hamas's dependence on Tehran.

Various U.S. and international policymakers, including Secretary of State Hillary Clinton, have said or implied that organizational fissures may exist, particularly between Hamas's Gaza-based leadership and its leadership-in-exile—viewed as more closely tied to Iran—in Damascus, Syria.⁸¹ Some believe that these potential fissures could be exploited by promising Gazan Hamas leaders greater engagement and other incentives in return for moderating their goals and tactics. Others have said that Hamas is more united than it seems, and that it benefits from the portrayal

⁸¹ In testimony before the House Appropriations Subcommittee on State, Foreign Operations and Related Programs, Secretary Clinton said, "In fact, we think there is some divisions between the Hamas leadership in Gaza and in Damascus. There's no doubt that those in Damascus take orders directly from Tehran." Transcript of Subcommittee hearing: "Supplemental Request," April 23, 2009.

of its leadership as divided because this perception provides Hamas with greater flexibility in dealing with both Western actors who hold out hope of its moderation and its Syrian and Iranian allies who are reminded not to take its rejectionist stance for granted.

Economic and Security Concerns: Gaza

The Gaza Strip is at the epicenter of economic and security concerns over Iranian influence on Palestinian life. Because Gaza and the West Bank are part of a customs union controlled by Israel, the Palestinians do not conduct formal trade with Iran. Nevertheless, possible Iranian-supported smuggling of weapons, cash, and other contraband into the Gaza Strip, along with Iranian training for Hamas militants, is believed by many to reinforce both Hamas's ability to maintain order and control over Gaza and its population, and Palestinian militants' ability to fire mortars and rockets into Israel.⁸² The deputy leader of the Iran-backed Hezbollah movement in Lebanon told the *Financial Times* in May 2009 that Hezbollah has been providing "every type of assistance" to Palestinians in Gaza, including military assistance, for some time.⁸³ The situation in Gaza came to a head with the December 2008-January 2009 conflict between Hamas and Israel, leading to the death and injury of hundreds of Gazan civilians, the displacement of thousands more, massive destruction of public and private infrastructure, and a general deterioration in quality of life.

In the conflict's aftermath, dilemmas remain over how to reconstruct Gaza, support the recovery of its people, weaken Hamas's control, and end smuggling. Some advocate opening Gaza's border crossings for commerce to ease the economic pressures that may encourage smuggling; some advocate internationally coordinated anti-smuggling operations; some advocate both. In January 2009, the U.S. interdiction of the Cypriot-flagged ship *Monchegorsk* in the Red Sea after it reportedly left Iran with weapons-related equipment and the Israeli bombing of an apparent arms-smuggling convoy in Sudan moving in the direction of the Egypt-Gaza border were signs of possible Iranian involvement in smuggling—perhaps in collusion with other states and non-state actors.⁸⁴ Although construction materials are generally not being allowed into Gaza through the border crossings, Iran has proposed its own reconstruction plans and claims to be distributing funds to Gazans affected by the conflict.⁸⁵ These plans may reflect Iranian ambition to compete—in concert with Hamas—against the PA, Gulf Arab states, and the international donor community for patronage and public support among Palestinians and other Arabs in the region.

⁸² According to the State Department, in 2008, "Iran remained a principal supporter of groups that are implacably opposed to the Middle East Peace Process. Iran provided weapons, training, and funding to HAMAS and other Palestinian terrorist groups, including Palestine Islamic Jihad (PIJ) and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC). Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel." U.S. Department of State, "Country Reports on Terrorism 2008," Chapter 3, available at <http://www.state.gov/s/ct/rls/crt/2008/122436.htm>. See also Marie Colvin, "Hamas Wages Iran's Proxy War on Israel," *The Sunday Times* (UK), March 9, 2008.

⁸³ Anna Fitfield, "Hizbollah Confirms Broad Aid for Hamas," *Financial Times*, May 12, 2009.

⁸⁴ Possible Iranian/Hezbollah weapons smuggling to Palestinians can be traced at least as far back as to the January 2002 case of the *Karine A*, a Palestinian merchant vessel carrying 50 tons of weapons (including Katyusha rockets and anti-tank missiles) that was seized by the Israeli navy in the Red Sea during the second Palestinian *intifada*.

⁸⁵ Iranian Press TV reported in July 2009 that Iran had given money to over 100 families in Gaza who had lost a family member or their home in the conflict to allow them to build temporary housing: "Bypassing government bureaucracy, the Martyrs' Foundation of the Islamic Republic of Iran has worked in partnership with the local Ansar Charity Institute to provide the necessary assistance." "After Israeli War, Iran Moves to Rebuild Gaza," *aljazeera.com* (citing Iranian *Press TV*), July 29, 2009. See also David Rosenberg and Saud Abu Ramadan, "Gaza Rebuild Splits Palestinians as Iran, U.S. Clash," *Bloomberg*, March 2, 2009.

Prospects

How Iranian influence on the Palestinians is likely to play out could depend in large part on events over the next several months. It is unclear how the popular unrest in Iran that has followed its June 2009 presidential elections might affect the Iranian regime's willingness and ability to exercise influence in the wider region and the strategic approach taken toward the Iranian-Palestinian linkage by the United States and Israel. Thus far, the Obama Administration has suggested that progress in the Arab-Israeli peace process (with the Palestinians and perhaps also with Syria and Lebanon) could improve the prospects of both countering Iran's nuclear threat and reducing its support of Hamas and Hezbollah, while Israel seems less inclined to pursue Arab-Israeli peace until the Iranian problems are addressed directly. Iran's internal political discord has complicated prospects for direct U.S.-Iran diplomacy aimed at resolving the nuclear issue. As a consequence, the U.S. focus on advancing the Arab-Israeli peace process could intensify. Alternatively, concerns about Iran's unpredictability might foster more of a "wait-and-see" attitude by the United States and other key actors with respect to the peace process and other diplomatic or strategic options in the region—possibly ceding the initiative to Palestinian militants, Hezbollah, or other potential spoilers.

Hamas politburo chief Khaled Meshaal, who is based in Damascus, Syria, made statements during summer 2009 that some believe betoken a more conciliatory Hamas approach toward Israel and the peace process.⁸⁶ Some claim that Hamas's conciliatory tone may be due to the movement's calculation that cultivating an image of reasonableness presently serves its interests owing to (1) the diplomatic climate following Obama's accession,⁸⁷ (2) Israeli deterrence of Hamas-generated violence in the aftermath of the Gaza conflict, and/or (3) distractions or changes in focus for Iran and Hamas's other allies/enablers Hezbollah and Syria.⁸⁸ Those who are more skeptical of Hamas's intentions have countered that Meshaal's statements did not change anything of substance in Hamas's existing positions, and are best explained as a ploy to give the impression of moderation.⁸⁹

Israel⁹⁰

Perspectives and Interests

From its founding in 1948 until the fall of Mohammed Reza Shah Pahlavi in 1979, Israel had good relations with Iran as, in the 1950's, it pursued a policy of trying to surround its Arab

⁸⁶ See Taghreed El-Khodary and Ethan Bronner, "Addressing U.S., Hamas Says It Grounded Rockets," *New York Times*, May 4, 2009; Jay Solomon and Julien Barnes-Dacey, "Hamas Chief Outlines Terms for Talks on Arab-Israeli Peace," *Wall Street Journal*, July 31, 2009.

⁸⁷ Hamas claims that high-ranking European officials—including ambassadors—have been talking regularly to Hamas representatives in 2009. See Andrew Rettman, "EU Countries Practice 'Secret' Diplomacy, Hamas Says," *euobserver.com*, September 14, 2009.

⁸⁸ Some speculate that Syria may be encouraging Hamas, to whose exiled leadership it provides safe haven, to at least appear more reasonable while Syria pursues a possible improvement in ties with the United States. Elections in Lebanon and Iran in June may have—for the time being—turned the primary focus of both Hezbollah and the Iranian regime to jockeying for power internally.

⁸⁹ See Matthew Levitt, "Score One for 'Hamaswood,'" Middle East Strategy at Harvard, August 11, 2009, available at <http://blogs.law.harvard.edu/mesh/2009/08/score-one-for-hamaswood/>.

⁹⁰ Prepared by Carol Migdalovitz, Specialist in Middle Eastern Affairs, August 20, 2009.

enemies with friends in the “periphery,” including Iran, Turkey, and Ethiopia. Israel provided the Shah with weapons and trained his secret police, the infamous SAVAK, and Iran provided Israel with oil, even during the Arab oil embargo after the October 1973 War.⁹¹

Ayatollah Ruhollah Musavi Khomeini, founder of the Islamic Republic of Iran in 1979, rejected Israel’s right to exist and ended all bilateral cooperation. In the early years of the Republic, Israel generally ignored Khomeini’s rhetoric because it viewed Saddam Hussein in Iraq as the greater threat. Moreover, Israel indirectly served Iran’s interests in 1981, when it bombed Iraq’s Osirak nuclear reactor, and is said to have secretly supported Iran briefly in the mid-1980’s during the Iran-Iraq War (1980-1988).⁹²

Yet, also in the 1980’s, Israel began to perceive Iran as a threat as Tehran provided ideological inspiration and military support for the founding of the Lebanese Hezbollah, which later attacked Americans and Israelis in the region, and Jews abroad. This threat perception grew as Israel increasingly confronted Iranian-supported violent Palestinian terrorist groups (Hamas and Palestine Islamic Jihad) which rejected the existence of Israel and sought to sabotage the peace process.⁹³

In October 2005, shortly after taking office, Iranian President Mahmud Ahmadinejad is said to have called for Israel to be “wiped off the map,” and he has since repeatedly expressed virulently anti-Israel sentiments. Israel perceives an existential threat from an Iran whose officials have these views plus an intent to develop nuclear weapons. Israeli officials believe that a nuclear Iran could pose a direct threat to Israel, provide a nuclear shield for terrorists, and possibly provide them with a nuclear weapon.⁹⁴

Policy Priorities

Stopping Iran from acquiring nuclear weapons is Israel’s number one foreign policy priority. The Israeli government insists that Iran is an international, not just an Israeli problem. Like his predecessors, Prime Minister Binyamin Netanyahu, who took office in 2009, has said that he intends to enlist an international front to increase sanctions on Iran and preserve Israel’s security interests.⁹⁵ His government is lobbying the international community, particularly the U.S. and West European governments. It hopes is to prod them to progress from dialogue, to harsher sanctions, to military action if Iran continues to refuse to abandon uranium enrichment. Israel also hopes to influence Russia and China in order to end their obstruction of harsher U.N. sanctions against Iran. It particularly seeks to dissuade Russia from selling advanced S-300 anti-aircraft missiles to Iran, thereby enabling it to thwart an attack on its nuclear installations.

⁹¹ For background, see Trita Parsi, *Treacherous Alliance: the Secret Dealings of Israel, Iran, and the United States*, New Haven: Yale University Press, 2007.

⁹² Ibid., and Orly Halpern, “Israeli Experts say Middle East was Safer with Saddam in Iraq,” *Forward*, January 5, 2007, who notes that Shimon Peres briefly advocated support for Iran at that time.

⁹³ Hezbollah, Hamas, and Palestine Islamic Jihad (PIJ) are all on the U.S. State-Department-designated Foreign Terrorist Organizations (FTOs). The annual State Department *Country Reports on Terrorism*, accessible via <http://www.state.gov>, notes that Iran provides financial, military, and training support to these groups.

⁹⁴ For example, see remarks of Prime Minister Binyamin Netanyahu after meeting with President Obama on March 18, 2009.

⁹⁵ “Policy Speech by PM Netanyahu at Special Knesset Session,” accessible via Israeli Ministry of Foreign Affairs website, July 22, 2009, <http://www.mfa.gov.il>.

Israeli officials are skeptical about the Obama Administration's outreach toward and possible engagement with Iran. Defense Minister Ehud Barak has said, "if there is an engagement, we believe it should be short in time, well-defined in objectives, followed by sanctions." He has reaffirmed that Israel is taking "no options off the table," signaling that a military strike is among its policy choices.⁹⁶

The priority that Israel gives to Iran reduces the priority it accords to the Arab-Israeli peace process. Because of the perceived Iranian threat, Israeli officials are wary of the possible establishment of a Palestinian state that would be vulnerable to takeover by Iranian-supported Hamas – thereby creating what Prime Minister Netanyahu calls "Hamastan," an Iranian proxy, on Israel's borders. Israeli leaders link movement on the Syrian-Israeli peace track to Syria's distancing itself from its ally Iran, again noting that it is essential to keep Iran away from Israel's northern border.

Economic and Security Concerns

Israel has no economic relations with Iran and, therefore, has few, if any, direct economic concerns. It is aware, however, that should Iran block the Straits of Hormuz and interfere with oil shipments from the Gulf in retaliation for an attack, then Israel's Western allies would be harmed, and Israel could be affected as a result.

Israel's security concerns are more immediate. Iran's ongoing arming of Hamas, Palestine Islamic Jihad, and Hezbollah is a threat to Israel's security. Israel wants Egypt and the United Nations to impede arms smuggling into Gaza and into Lebanon, respectively. Foremost, as noted above, Israel believes that an Iran possessing nuclear arms would threaten its security and existence.

Prospects

Israel is keeping "all options on the table." It is willing to give the United States and others in the international community a chance to engage in a dialogue with Tehran to see if incentives would induce Iran to stop enriching uranium or to enrich it outside of the country so that nuclear fuel could be monitored and not diverted from peaceful purposes to a weapons program. If dialogue does not work within a limited period of time, however, Israel expects the international community to impose rapidly escalating sanctions on Iran.

Should sanctions not work, Israel has indicated that it is preparing/prepared to take armed action. Israel already may have signaled its readiness to thwart Iran's nuclear ambitions by military means if diplomacy fails. On September 6, 2007, the Israeli Air Force carried out an air raid against a site in northeastern Syria. U.S. officials later confirmed that it was a nuclear reactor.⁹⁷ Then, on June 20, 2008, the *New York Times* reported that the Israeli Air Force had conducted a major exercise about 900 miles west of Israel, comparable to the distance planes would have to

⁹⁶ Greg Jaffe, "US and Israel Differ on Strategy if Iran Talks Fail; Leaders Agree Goal is to Bar Nuclear Arms," *Washington Post*, July 28, 2009, Richard Boudreaux, "Gates' Israel Trip Aims to Ease Iran Worries," *Los Angeles Times*, July 28, 2009.

⁹⁷ On April 24, 2008, then-National Security Advisor Stephen Hadley, CIA Director Michael Hayden, and Director of National Intelligence Mike McConnell presented evidence to congressional committees that the Israeli target was a nuclear reactor. Hayden said that it could have produced enough material for at least one weapon, but expressed "low confidence" that the site was part of a nuclear weapons program.

fly to strike Iran's uranium enrichment plant at Natanz.⁹⁸ In June and July 2009, Israel sent a submarine capable of launching a nuclear missile and several missile class warships through the Suez Canal into the Red Sea, in deployments that some observers suggested were preparation for a possible attack on Iran's nuclear facilities.⁹⁹ Israel also has proceeded with development, improvement, and successful testing of the Arrow anti-ballistic missile to counter a potential Iranian attack.¹⁰⁰

Experts appear to agree that an Israeli strike on Iran would be a complicated undertaking and carry a risk of asymmetric retaliation by Iranian-allied non-state actors.¹⁰¹ There is some question as to whether it would be possible for Israel to attack Iran without U.S. permission, given U.S. control of Iraqi airspace which Israeli planes might have to transit en route to Iran, and possibly without more sophisticated U.S. weaponry than Israel now possesses. Furthermore, because Iranian nuclear facilities are dispersed, multiple air raids would be required, perhaps diminishing the chances of success. Some analysts believe that a successful strike would set back Iran's nuclear program for only a few years. Given the closeness of U.S.-Israeli relations and reported warnings by CIA Director Leon Panetta of U.S. expectations of advance notice, it is likely that Israel would inform and consult Washington before attacking Iran.¹⁰²

Finally, there are those who contend that the danger to Israel from a nuclear-armed Iran is overstated because Iran would not want to risk a response from Israel's own unacknowledged nuclear arsenal -- a powerful deterrent.¹⁰³ Some conclude that Israel and the international community should become reconciled to the possibility of a nuclear-armed Iran and put aside other concerns. It is uncertain if the Netanyahu government would heed this advice.

Caspian Neighbors¹⁰⁴

Iran's neighbors in the Caspian Sea region include Russia, the South Caucasian states of Armenia and Azerbaijan, and the Central Asian states of Kazakhstan and Turkmenistan. Russia is the dominant player in relations with Iran. Armenia and, to a lesser degree, Kazakhstan, have aligned themselves with Russian policy toward Iran. A major proportion of the world's Azerbaijanis (estimates range from 6-12 million), and about 200,000 Armenians reside in Iran. Ethnic Azerbaijanis are Iran's largest ethnic minority, constituting almost one-third of its population. More ethnic Turkmen reside in Iran and Afghanistan—over three million—than in Turkmenistan. The leaders of Kazakhstan, Turkmenistan, and Azerbaijan publicly embrace Islam but display

⁹⁸ Michael R. Gordon and Eric Schmitt, "U.S. Says Exercise by Israel Seemed Directed at Iran," *New York Times*, June 20, 2008.

⁹⁹ Sheera Frenkel, "Israeli Navy in Suez Canal Prepares for Potential Attack on Iran," <http://www.timesonline.co.uk>, July 16, 2009.

¹⁰⁰ The Arrow is partly funded by the United States. For FY2009, Congress appropriated \$74,342,000 for the Arrow Missile Defense Program, of which \$13,076,000 is for producing Arrow components in the United States and Arrow components in Israel. The House proposed the funding increase in FY2010; the Senate has not yet considered the matter.

¹⁰¹ See for example, Abdullah Toukan, *Study on a Possible Israeli Strike on Iran's Nuclear Development Facilities*, Center for Strategic and International Studies, March 16, 2009.

¹⁰² "Senior Israel Source on CIA's Visit: No Plan to Surprise US with Iran Action," Israel-OSC Summary of multiple Israeli media reports, Open Source Center Document GMP20090514739002, May 14, 2009.

¹⁰³ Warren P. Strobel, "Dangers of Nuclear Iran may be Overstated," *Pittsburgh Post-Gazette*, November 18, 2007.

¹⁰⁴ Prepared by Jim Nichol, Specialist in Russian and Eurasian Affairs, June 2009.

hostility toward Islamic fundamentalism. Most of the people in Kazakhstan and Turkmenistan are Sunni Muslims. About three-fourths of the population of Azerbaijan is Shiia, and about one-fourth is Sunni. Among the Russian citizens living in the Caspian region, most are Russian Orthodox Christians, although a large proportion are Sunni or Sufi Muslims.

Policy Priorities

Iran has traditionally had friendly relations with Armenia and both have joined in opposing Turkish and Azerbaijani interests in the region. Armenia's relations with Iran are focused on trade, since its borders with Turkey and Azerbaijan are closed as a result of the unresolved Armenia-Azerbaijan conflict over Azerbaijan's breakaway Nagorno Karabakh (NK) region. As a result of the conflict, Armenian NK forces occupy areas along the border with Iran. Iran has an official policy of neutrality regarding the NK conflict and has offered to mediate the conflict. Islamic Shiite fundamentalists in Iran have urged Iran's government to forego its policy of neutrality in the NK conflict and to embrace solidarity with Shiites in Azerbaijan.

Energy security has been one of Armenia's main concerns, since it has been dependent on gas shipments from Russia through a pipeline that transits Georgia. Russia's fractious relations with Georgia have often jeopardized these shipments, causing Armenia to look to Iran for gas supplies.

Iran and Azerbaijan have differed on such issues as border delineation in the Caspian Sea, Iran's objections to Azerbaijani security ties with the United States, and Azerbaijan's objections to Iranian trade ties with Armenia. Some observers have suggested that Iran's increased acrimony with the United States in recent years may have been a spur to its efforts to improve official relations with Azerbaijan, in order either to encourage Azerbaijan to be a mediator or to urge it not to permit U.S. basing.

Azerbaijan and Iran have normal ties at the official level, but some in Azerbaijan have questioned whether Iran really supports the continued sovereignty and independence of the country. As an independent country, Azerbaijan stirs the aspirations of ethnic cohorts residing in Iran for greater rights or even secession. Iran has limited trans-Azerbaijani contacts to discourage the spread of ethnic consciousness among its "Southern Azerbaijanis," and has heavily criticized politicians in Azerbaijan who advocate separatism in Iran.¹⁰⁵ The example of the assertion of Kurdish ethnic rights in post-Saddam Iraq in 2003 has galvanized some Azerbaijanis who propagandize for greater rights for "Southern Azerbaijanis." Alternatively, officials in Azerbaijan at times have alleged that elements in Iran have fostered Islamic fundamentalism among the Shiia population or have sponsored terrorism.¹⁰⁶

Since 2006, many in Azerbaijan increasingly have been concerned about Iran's arrests of ethnic Azerbaijani civil rights advocates and alleged separatists, including Abbas Lisani. Azerbaijani-Iranian relations were roiled at the end of 2007 by the conviction in Azerbaijan of fifteen individuals on charges of collaborating with the Islamic Revolution Guards Corps to plan a coup

¹⁰⁵ Analyst Brenda Shaffer argues that Iran tacitly supports the continuation of the NK conflict by assisting Armenia, since the conflict constrains Azerbaijan's ability to foster ethnic nationalism among Azerbaijanis in Iran and makes war-torn and poverty-stricken Azerbaijan appear less inviting as a homeland. Brenda Shaffer, *Borders and Brethren: Iran and the Challenge of Azerbaijani Identity*, Cambridge, Mass., MIT Press, 2002, pp. 136-140.

¹⁰⁶ Cameron Brown, *The Middle East Journal*, Autumn 2004, pp. 576-597; Brenda Shaffer, *Borders and Brethren: Iran and the Challenge of Azerbaijani Identity*, Cambridge, Mass., MIT Press, 2002.

and carry out terror operations. After the Azerbaijani National Security Ministry released details of the case, the Iranian Foreign Ministry denied any Iranian involvement and termed the case a scheme by Israel and the United States to harm Azerbaijani-Iranian relations.¹⁰⁷

Russia's ties with Iran have been both cooperative and competitive, and are grounded in Russia's drive to regain a prominent, if not superpower, status in international relations, to establish trade and transport links to the Persian Gulf, to coordinate oil and gas export policies as a cartel, and to counter U.S. influence in the Middle East. Russia's sizeable arms sales and nuclear technology transfers to Iran have raised regional concerns among such countries as Azerbaijan, Iraq, and Saudi Arabia, as well as wider international concern. Russia and Iran also want to limit Turkey's role in the region, which they view as an avatar of U.S. and NATO interests.

Since the early 1990s, Iran and Russia have used the issue of the status of the Caspian Sea to hinder Western oil development efforts. With Russia's adoption of a more conciliatory stance regarding Caspian seabed development, Iran in 2001 became isolated in still calling for the Sea to be held in common, or alternatively for each of the littoral states to control 20% of the Sea (and perhaps, any assets). In 2007, Iran declined Russia's call for forming a Russia-dominated joint Caspian naval task force, but joined Russia in opposing any naval presence by non-littoral states. Among other recent differences of viewpoint between Iran and Russia, Iran objected to then-President Putin's offer to the United States in June 2007 to make the Gabala radar site in Azerbaijan available for tracking missile launches from Iran.

Some observers suggest that one reason Iran has opposed a settlement of the legal status of the Caspian Sea has been its opposition to the construction of trans-Caspian oil and gas pipelines from Kazakhstan and Turkmenistan to Azerbaijan that would not transit Iranian territory. Kazakh President Nursultan Nazarbayev has urged Iran to agree to a median-line delineation of Caspian Sea borders rather than demand territorial concessions (Kazakhstan claims the largest area of seabed), and dangles prospects for energy pipelines through Iran and enhanced trade as incentives to an agreement.

Economic and Security Concerns

Iran maintains bilateral trade with each of its Caspian neighbors, but trade with Russia, valued at \$4.33 billion in 2008, is more developed than the other relationships.¹⁰⁸ On March 19, 2007, Armenia's then-President Robert Kocharyan and Iranian President Mahmoud Ahmadinejad inaugurated an 88-mile gas pipeline from Tabriz in Iran to Kadjaran in Armenia. Work was completed on the second section of the pipeline, a 123 mile section from Kadjaran to Ararat, in December 2008. The Russian-controlled ArmRosGazprom joint venture built this second section and operates the pipeline. Initial deliveries reportedly are 10.6-14.1 billion cubic feet of gas per year, with plans for more gas deliveries in future years. Some of this gas will be used to generate

¹⁰⁷ Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), January 8, 2008, Doc. No. CEP-950009; August 15, 2007, Doc. No. CEP-950239; January 31, 2007, Doc. No. CEP-950234; November 1, 2006, Doc. No. CEP-950311; August 11, 2006, Doc. No. CEP-950113; *CEDR*, December 14, 2007, Doc. No. CEP-950356; December 16, 2007, Doc. No. CEP-950073; December 17, 2007, Doc. No. CEP-950308.

¹⁰⁸ International Monetary Fund (IMF), *Direction of Trade Statistics*, Islamic Republic of Iran, September 2009. Iran's bilateral trade with Armenia: \$211 million in 2008; with Azerbaijan: \$751 million in 2008; with Kazakhstan: \$1.9 billion; and Turkmenistan: \$1.82 billion.

electricity for Iran and Georgia, but the remainder eventually may satisfy all Armenia's consumption needs, alleviating its dependence on Russian gas transported via Georgia.

Iran has argued for some time that Azerbaijan would most benefit financially by cooperating in building energy pipelines to Iran. At the end of 2005, Azerbaijan began sending up to about 35 million cubic feet of gas per day through a section of Soviet-era pipeline to the Iranian border at Astara in exchange for Iranian gas shipments to Azerbaijan's Nakhichevan exclave. In late March 2009, Azerbaijan's state-owned SOCOR energy firm announced that it was holding talks with Russia's state-controlled Gazprom gas firm on the refurbishment of the gas pipeline from Russia to Astara (including the part now used by Azerbaijan), in order to facilitate a Russian gas swap arrangement with Iran.

Seeking alternatives to pipeline routes through Russia, in December 1997 Turkmenistan opened the first pipeline from Central Asia to the outside world beyond Russia, a 125-mile gas pipeline linkage to Iran. Turkmenistan provided 282.5 bcf of gas to Iran in 2006 and reportedly a larger amount in 2007. At the end of 2007, however, Turkmenistan suddenly suspended gas shipments, causing hardship in northern Iran. Turkmen demands for higher payments were the main reason for the cut-off. Gas shipments resumed in late April 2008 after Iran agreed to a price boost.

Turkmenistan and Iran have clashed over energy prices. Relations between Turkmenistan and Russia appeared to worsen after an explosion at a branch of the Central Asia-Centre (CAC) gas pipeline on April 9, 2009. Turkmenistan claimed that the explosion was caused by Russia's Gazprom, which had reduced the gas it was removing from the pipeline without informing Turkmenistan. Iran could be an alternative for exporting Turkmen gas, including to European markets.

Prospects

According to many observers, Iran appears likely to continue to build good relations with the Caspian regional states, and to not permit the export of Islamic extremism to damage correct state-to-state relations. All the Caspian littoral states have pledged not to permit the establishment of airbases that could be used for operations against any other littoral state, and the Collective Security Treaty Organization (to which all Iran's northern neighbors belong except Azerbaijan) forbids the presence of non-member state bases.¹⁰⁹ On other issues, it is possible that Iranian-Azerbaijani relations might become more fragile if civil dissent increases among some ethnic Azerbaijanis in Iran. According to analyst Mark Katz, Iran and Russia are likely to continue their uneasy "contentious cooperation" in regional affairs as long as both countries view the United States as a major opponent.¹¹⁰ In the wake of the August 2008 Russia-Georgia conflict, several observers suggest that Russia is accelerating its efforts to reduce or eliminate U.S. influence in the wider Caspian region. Greater Russian influence in the region could contribute in the future to greater contention in Russian-Iranian relations over energy routes, regional security, nuclear technology-sharing, and other issues. More broadly, a deteriorating security situation in Afghanistan---exacerbated by Russian and Chinese support for closing coalition and NATO airbases in Central Asia and otherwise making access more difficult---might contribute to rising cross-border terrorism and trafficking in weapons, drugs, and weapons of mass destruction in the Caspian region.

¹⁰⁹ *Iran: Daily Report*, October 16, 2007, Doc. No. IAP-950137.

¹¹⁰ Mark Katz, "Russian-Iranian Relations in the Ahmadinejad Era," *Middle East Journal*, Spring 2008.

Issues for Congressional Consideration

Engagement, Sanctions, or Both?

Although the Obama Administration may share many goals of the previous administration on Iran, it also sees the need for new strategies and approaches. The Obama Administration has advocated a policy of engagement with Iran to determine the nature of its nuclear program and address other subjects of international concern. While post-election turmoil in Iran delayed these efforts temporarily, it appears that the Administration is committed to pursue engagement through the P5+1 framework. The first meeting took place on October 1, 2009 and President Obama called it a “constructive beginning.” More talks are expected.

At the same time, the Administration has raised the possibility of additional multilateral sanctions (through the U.N. Security Council), and some Members of Congress have threatened increased unilateral sanctions on Iran and both houses are considering legislation that would, among other things, give the President authority to impose sanctions on foreign entities that sell refined petroleum or assist Iran in developing its own refining capacity.¹¹¹ Iran imports an estimated 40% of its gasoline for domestic requirements,¹¹² and many perceive this dependency as an economic weakness worth exploiting. These proposals have been controversial both in Congress and among observers.

Those in favor of expanding the program of U.S. unilateral sanctions against Iran, or at least granting the President legal authority to do so, argue that while the proposed legislation may appear contrary to President Obama’s engagement policy, it actually strengthens the negotiating position of the United States going into discussions. Even if the legislation is not passed, publicly discussing possible consequences for Iran if it does not cooperate could serve as a disincentive for Iran to ignore U.S. overtures.¹¹³

Others argue that recent actions on the part of Iran indicate that it is not interested in cooperation. On September 21, 2009, Iran disclosed to the International Atomic Energy Agency (IAEA) a secret nuclear facility at Qom, reportedly after U.S. and European intelligence sources discovered it. Iran agreed to grant IAEA inspectors access to the Qom facility on September 25, but then test fired medium-range missiles on September 28, 2009. These events, combined with Iran’s recent bellicose rhetoric, raise doubts in some observers’ minds that Iran is serious coming into the discussions with the United States and the international community. They argue that even if Iran

¹¹¹ For more information, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman. In April 2009, several bills were introduced—H.R. 2194, S. 908, H.R. 1208, and H.R. 1985—that would make sanctionable efforts by foreign firms to supply refined gasoline to Iran or to supply equipment to Iran that could be used by Iran to expand or construction oil refineries.

¹¹² Energy Information Administration (EIA), “Country Analysis Briefs: Iran,” 2007.

¹¹³ For example, Howard Berman, Chairman of the House Foreign Affairs Committee, said: “I fully support the Administration’s strategy of direct diplomatic engagement with Iran, and I have no intention of moving this bill through the legislative process in the near future.... However, should engagement with Iran not yield the desired results in a reasonable period of time, we will have no choice but to press forward with additional sanctions—such as those contained in this bill—that could truly cripple the Iranian economy.” See “Introduction on Iran Refined Petroleum Sanctions Act,” April 30, 2009. Transcript available online at <http://www.congress.gov/cgi-bin/query/D?r111:5::/temp/~r111V3usMW::>

is not belligerent, it is likely to be disingenuous, using the talks to deflect pressure as it continues to pursue the same policies.¹¹⁴

Some critics of expanding U.S. sanctions argue that the discussions taking place in Congress are premature. First of all, some argue they may tie the hands of U.S. negotiators and put Iran on the defensive, souring the atmosphere for a meaningful diplomatic exchange. Second, some argue that unilateral sanctions at this stage could undermine efforts to garner international support for sanctions later on. For example, H.R. 2149 and H.R. 1347 would target businesses that invest in Iran's petroleum sector. Since the largest exporters of refined petroleum to Iran are European companies,¹¹⁵ critics are concerned that targeting European firms will distance some European countries from the United States, which could be problematic. It is widely believed that the United States would need European support to bring Russia and China in on an international sanctions regime should negotiations break down.

Other critics of sanctions assert that trying to impose an embargo on refined petroleum imports to Iran could be perceived by Iran as an act of aggression, even tantamount to an act of war, which could provoke it to retaliate by targeting traffic in the Strait of Hormuz or using its proxies to target U.S. interests elsewhere in the region. Others disagree. They argue that not only would Iran not retaliate, the sanctions would likely be ineffective to pressure Iran at all. Iranian officials have publicly stated that sanctions would adversely affect sellers more than Iran and that Iran could find suppliers willing to ignore U.S. or international sanctions in order to meet its demand. In September 2009, Iran and Venezuela signed a gasoline supply deal that many perceived as an Iranian attempt to demonstrate the ineffectiveness of such measures.¹¹⁶

Possible Regional Implications

The United States, Israel, and the EU have proposed the end of the year as an unofficial deadline for Iran to demonstrate its willingness to cooperate on the nuclear issue.¹¹⁷ Regardless, any actions on the part of the Obama Administration, Congress, or the international community and any developments in Iran will have implications for U.S. interests in the region as Iran's neighbors react and reevaluate their policies accordingly.

Of Increased Sanctions

While attention in the United States tends to focus on the response of European countries to expanded unilateral sanctions or the likelihood that Russia and China would join an international effort to impose sanctions on Iran, many of Iran's neighbors would also be affected. Iran has strong economic relations and shared economic interests with many of its neighbors that could be complicated by efforts to further isolate it. It is unclear whether Iran's neighbors would cease

¹¹⁴ See, for example, Abdullah Al Shayji, "No Dialogue with the Deaf Neighbor," *gulfnews.com*, September 13, 2009 and Michael Singh, "Broadening the U.S. Approach on Iran," Washington Institute for Near East Policy, PolicyWatch #1578, September 15, 2009.

¹¹⁵ Among the largest multinational importers of refined petroleum into Iran are BP (United Kingdom), Vitol (Switzerland), Total (France), and Shell (the Netherlands).

¹¹⁶ U.S. Open Source Center (OSC) Document GMP20090918420001, "OSC Report: Iran Plans to Increase Gasoline Production to Counter Sanctions," OSC Report in English, September 18, 2009.

¹¹⁷ David E. Sanger and William J. Broad, "U.S. and Allies Warn Iran Over Nuclear 'Deception,'" *New York Times*, September 25, 2009.

trade or forgo plans to cooperate in the area of resource exploitation in the face of international condemnation. The United Arab Emirates (UAE), for example, is among Iran's major gasoline suppliers by virtue of the fact that much of the refined petroleum products that Iran imports transit storage facilities in the UAE en route to Iran. Turkey and Armenia depend on cooperation with Iran to reduce their dependence on Russia for energy resources. Expanded sanctions could force Iran's neighbors to choose between cooperating with the international community and their own economic well-being.

Of a Preemptive Strike

Engagement and sanctions are both aimed at alleviating tensions over Iran's nuclear program, but many also view them as the best hope for preventing a new war in the Middle East. Israeli Prime Minister Binyamin Netanyahu has made it clear that "all options remain on the table" for dealing with Iran, including the military option. So far, the Obama Administration has as well. They have also both referred to the end of 2009 as a deadline for Iran to demonstrate its willingness to cooperate with the international community on the nuclear issue. As the deadline fast approaches, Iran's Arab neighbors, the Gulf States in particular, appear nervous, weighing the cost of a regional war against the danger of a nuclear Iran, while calculating the long term political viability of the Iranian regime in light of continuing domestic protests.

Some argue that tension between Iran and Israel could bring Israel and/or the United States and Iran's Arab neighbors closer together, perhaps even to some level of cooperation. Others caution that any Israeli strike could outrage Iran's Arab neighbors, and that the conflict would become regional and factious. The security of U.S. military personnel, facilities, and material in neighboring countries is also of concern to U.S. decision makers and regional leaders.

Of a Nuclear Iran

Most regional states (with a few noteworthy exceptions) are concerned primarily with avoiding potential conflicts with Iran that could lead to military action or regional instability. Some might even prefer to learn to live with a nuclear Iran than to endure a regional war to prevent one. The primary concern among policy makers is the potential for a nuclear arms race in the Middle East, which would undermine regional stability and run counter to the Obama Administration's long term vision of a world without nuclear weapons and its shorter term strategy to reduce the number of strategic warheads and missiles and to end the production of fissile material.¹¹⁸ U.S. Secretary of State Hillary Clinton's remark about possibly protecting the Gulf states under a "defense umbrella" was perceived by some as a tacit acceptance of the prospect of a nuclear Iran. Others saw it as an effort to mitigate the risk of a nuclear arms race—highlighting concerns that some of Iran's neighbors might pursue their own nuclear programs if they become convinced that Iran's nuclear aspirations cannot be checked.¹¹⁹ In the interim others have highlighted the dangers of a de facto regional conventional arms race, as Iran's Gulf Arab neighbors take steps to upgrade and expand their military forces as a deterrent and Iraq continues its efforts to reconstitute and reequip its military.

¹¹⁸ The text of President Obama's address to the U.N. General Assembly is available online at <http://www.nytimes.com/2009/09/24/us/politics/24prexy.text.html>.

¹¹⁹ See, for example, U.S. Open Source Center (OSC) Document EUP20090810167025, "Post-Election Protests Harm US's Iran Engagement Drive," Centre for European Reform, London, August 10, 2009.

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