The Gulf and Transition

US Policy Ten Years After the Gulf War:

The Challenge of Iran

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Introduction

This transition study reflects the result of a long-standing project on Gulf net assessment, funded in part by the Smith Richardson Foundation. This project has already produced some eight books, including two major studies of Iranian and Iraqi military forces published in 1999 – *Iraq and the War of Sanctions* and *Iran’s Military Forces in Transition* (Praeger 1999). Additional detailed briefings and supporting data on the military balance in the Gulf, energy and economic trends, Iranian and Iraqi proliferation, and Gulf arms transfers can be found on the CSIS web page at [www.csis.org](http://www.csis.org) under the sections market as “Gulf in Transition” and “Strategic Assessment.

This volume is intended to support US policy making and the reader should be aware that the sources used are deliberately chosen to rely as heavily as possible on current official US government documents and reports, unclassified intelligence reporting and estimates, and official international institutions like the World Bank. The goal is to provide data that policy makers are familiar with and can trust. The author, however, is solely responsible for the conclusions and suggestions made in this analysis and no attempt was made to coordinate its content with either any officials or experts in the US government or other policy analysts in the CSIS.
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Iran and Iraq pose the primary challenge to security of America’s Southern Gulf allies, the smooth and secure flow of energy exports, and US interests in the Gulf region. Each nation is very different, but both seek to increase their political and strategic influence over the region, and Iraq seeks hegemony. Both are major military powers by regional standards, and significant proliferators. Both are capable of supporting terrorism and asymmetric warfare against the US and its Gulf allies. Both oppose the Arab-Israeli peace process.

US policy must be based on containing both Iran and Iraq and opposing their efforts to proliferate. It must be based on giving each Southern Gulf nation the confidence that the US will deter or defend against any threat from the Southern Gulf. At the same time, the US faces the dilemma that Iran and Iraq are major energy exporters, and the global economy will be increasingly dependent on their exports. It must also deal with the humanitarian reality that they have a total of nearly 100 million people which cannot be held accountable for their leadership.

US policy must recognize the fact that Iran and Iraq cannot be dealt with by similar policies. Neither their regimes nor political dynamics are similar as they present different regional security problems. In fact, the need to take account of such differences was clearly recognized in the original US approach to dual containment, and major political changes have since taken place in Iran that offer real hope of moderation. Iraq, on the other hand remains under the regime of a ruthless aggressor: Saddam Hussein. There are no easy answers to dealing with either nation, and even moderate political leadership in Iran or Iran may not put an end to proliferation. Political change may make the Northern Gulf more stable, and the balance of power easier to deal with, but many problems and challenges are likely to remain.

**Iran: “Normalization” and Containment**

Iran presents four major policy challenges that the US must deal with over the coming years and where it must seek to find ways to cooperate effectively with its allies and other powers. First, the US must seek to deal with the ongoing political struggles between Iran’s
“moderates” and “hardliners” and find some way to create an effective dialogue between Iran and the US that can create “correct,” if not friendly relations. Second, the US must seek to minimize Iran’s efforts to challenge its neighbors, support terrorism and extremism, and oppose the Arab-Israel peace process. Third, the US must come to grips with the present sanctions policy in ways that can ensure that Iran’s energy policy results in continued and expanded exports of energy. Fourth, the US must find ways to limit the scale of Iran efforts to build up its military forces and proliferate.

The only thing that is certain about the US effort to meet these challenges is that there is no elegant solution that can work, and that neither US efforts to “demonize” or “sanctify” Iran’s political leadership will be successful. Efforts to normalize US and Iranian relations may be able to bring a great deal of added stability to the Gulf, as European and Southern Gulf efforts to normalize relations have already shown. The course of the Iranian revolution remains uncertain, however, and normalization without strong US efforts to limit Iran’s military build-up and to contain it with a strong regional deterrent could well prove to be dangerous.

At the same time the US failed dismally to convince any of its allies to actively support its sanctions policy, and probably for good reason. A poor Iran is likely to be a dangerous Iran and one driven to take risks with proliferation. Successful economic sanctions would inflict major hardships on Iran’s people. Rest of the world needs Iranian energy exports just as much as the US.

The US must find a better balance between containment and normalization. It must be one that takes account of the reality that military containment and deterrence are the priority, not failed adventures in economic sanctions.
The Challenge of Uncertain Moderation and Political Change

The political situation in Iran is highly unstable, and will probably remain so for at least half a decade. Iran is a nation that is still deeply in the process of revolutionary change, and remains divided between “moderates” who have broad public support, and “conservatives” who control the military, security system, and many other governmental institutions. The “moderates” now seem to be the strongest faction, and might well take a more peaceful and positive course if they can take full control of Iran’s political system.

Since President Ali Mohammad Khatami-Ardakani was elected in May, 1997, with a popular majority of 69%. He soon made it clear that Iran may evolve a more tolerant approach to defining an Islamic state -- one that emphasizes the humanitarian and moral strength of Islam, rather than attempt to force other nations into accepting its concept of repressive and outdated theological rule and social customs. Such change, however, will not come easily. There has been a continuing power struggle between those “moderate” groups that support President Khatami, and the more hardline groups that oppose him and support the Supreme Leader, the Ayatollah Ali Hoseini-Khamenei. This is a struggle involving battles that the hardliners have often won, and the hardliners continue to control the military, the judiciary, internal security services, and state military. There have been numerous arrests of moderates and closings of Iran’s private newspapers.

The pro-Khatami factions have also had their victories, however, and a vast majority of the people of Iran clearly support a more liberal and moderate government. They also want a government that focuses on economic development rather than foreign ideological and military adventures. Iran held its sixth parliamentary elections since the 1979 Islamic revolution on February 18, 2000. The results of the elections gave an overwhelming (over 70% of the vote) victory for the Pro-Khatemi reformist coalition. The outcome of this election, U.S. President Clinton called for a "constructive partnership with Iran."

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The Iranian people are far more concerned with Iran’s national interest and economic development than the export of revolution for very good reasons. Iran faces massive problems because of its demographics and a very young population (34% is 14 years of age or younger) with high unemployment and limited job prospects. It averaged 2.7% annual population growth during 1980-1998. Its population grew from 39.1 million in 1980 to 61.9 million in 1998. It is projected to grow to 82.1 million in 2015, and 98 million in 2030. The end result was that real population growth, revolution and war cut per capita income by an annual average of 1.2% during 1965-1998 – a period of nearly a quarter of a century. 1

Iran’s economy is excessively dependent on oil revenues, which accounts for about half the state's budget and 80% of the country's hard currency earnings. In spite of years of effort to reduce it debt, and stringent economic measures and export controls, Iran began 2000 with $16 billion in external debt (including a high proportion of short-term debt). In spite of high unemployment and inflation, the government still pays for state subsidies on many basic goods. Iran has a large, inefficient public sector and it has corrupt state monopolies called “bonyads” that US sources estimate control at least a quarter of the economy and that are answerable only to the supreme leader Ayatollah Ali Khamenei. 2

Iran announced in 2000 that its non-oil exports actually continued to fall. They were down 5% in the first six months of the Iranian fiscal year, and totaled only $1.5 billion, while total imports rose by 15.5% and reach $7 billion. Exports consisted of $263 million worth of carpets, $165 million worth of chemicals, $107 million worth of pistachios, and $93 million worth of irons and steel. In contrast, Iran imported $1.4 billion worth of industrial machinery, $630 million worth of iron products, $467 million worth of electrical products, and $319 million worth of wheat. 3 1 (This was a minor part of its total food imports, which rise in the second half of the year. Iran ordered 1.3 million tons of wheat from France, Argentina, and Europe in October and was negotiating for more from Australia and Canada.) 4
Iran has made a major effort to develop a cohesive economic reform plan under President Khatami, and one that relies heavily on market forces and opening the economy to foreign and private domestic investment. In September 1999, Khatami called for the "total restructuring" of the Iranian economy, a call that is repeated in the country's new five-year economic plan that began in March 2000. He announced a program to privatize several major industries, including communications, post, rail, and tobacco, and plans to consider the privatization of some 2,400 state-owned firms.  

Iran is also attempting to diversify its economy by investing some of its oil revenues in other areas. Iran is hoping to attract billions of dollars worth of foreign investment to the country by creating a more favorable investment climate. The government has discussed measures, much as possible constitutional amendments, reduced "red tape," reduced restrictions and duties on imports, creation of free-trade zones, and increased safety of foreign investments. Iran's government has also announced the possibility allowing foreign investment in its mining and metals sectors. It opened its stock market to foreign investment for the first time in 2000, and began to make significant reforms in its banking system. It also issued plans to use its unexpectedly high oil revenues to release money from its stabilization fund to allow added private sector investment.  

The balance of power in Iran remains highly uncertain, however, and revolutions can become more extreme, as well as more moderate. Iran’s pragmatists and moderates still face strong traditionalist and radical opposition and it is the hardliners who control the command of the military, Revolutionary Guards, intelligence services, security services and most of the judiciary. Iran’s revolution may yet become the captive of ambitious leaders or elites. Conservative or extremist reaction can suppress the positive trends in political and social development, and nationalism and regional ambition can still turn ideology into an excuse for aggression. The “moderates” have made only limited progress towards economic reform. Economic failure can also end in aggression, authoritarian rule, and social repression.
This does not mean that the US should be pessimistic about political change in Iran or should not encourage it. The popular elections in Iran clearly show that that its populace – and particularly its young people – are tired of religious extremism, the lack of any clear economic future, and isolation. Even many of Iran’s so-called “hardliners” also now realize a Persian Shiite Revolution cannot sweep an Arab Sunni world. They also realize the Sunni extremists in Afghanistan now pose a threat to Iran and that Sunni, not Shiite movements dominate Islamic thought in Central Asia. It is also important to remember that while the “hardliners” control the top command of the military and Revolutionary Guards, the vast majority of Iran’s troops are conscripted young men from an age group that voted overwhelmingly for Khatami.

It does mean that the US should be cautious about what “moderate” will prove to mean. Pragmatic nationalism does not mean pro-American, or abandoning Iran’s desire to be the most significant power in the Gulf. About 20-30% of young Iranians vote as “hardliners” and many young “moderate” Iranians, as well as older “moderates,” still see the US as the supporters of the Shah, the leading power backing Iraq in the Iran-Iraq War, and as a rival. US support for Israel is scarcely popular in Iran, and few Iranians see Hamas, the Palestinian Islamic Jihad (PIJ) or Hezbollah as “terrorists.”

Iran is not likely to abandon its efforts to be a leading Gulf military power, if not the leading Gulf military power, regardless of the nature of the regime and whether it is included in some form of Gulf security regime. It may moderate its efforts to proliferate and limit any open deployment: It may even restrict the range of its delivery systems but only if it sees a strong incentive to do so, or feels far more secure than it is today. Even then, virtually any Iranian regime is not going to ignore Iraq, Pakistan, Israel, and US power in the Gulf and cease to proliferate at least the RDT and E at the contingency level.

It is equally important to understand that terms like “moderate” and “hardliner” disguise a very wide range of different views and a far more complex set of differences within Iran’s
leadership. Iran does not consist of two factions, one of which is struggling to create friendly relations with the US. It consists of a wide range of different Iranian nationalists with different views of Iran’s best national interest and most of whom differ in some important ways with the policies and interests of the US.

Iran’s foreign policy is also in transition, hopefully to a moderate policy that concentrates on development and considers security more in defensive terms. However, deep contradictions remain. There have been no reductions in Iran’s efforts to proliferate and improve its military capabilities in the Southern Gulf. Iran has reduced its support for terrorism in the Southern Gulf, and its involvement in incidents in the region has declined sharply since Khatami’s election, but, Iran’s training facilities and infrastructure remain intact and both US and regional experts have not detected a change in Iran’s efforts to build-up its Revolutionary Guards and capabilities for asymmetric warfare.

**Iran and the Southern Gulf**

Iran has made progress in improving relations with a variety of countries. In December 1997, Iran hosted the Organization of the Islamic Conference (OIC) in Tehran. During this well-attended (more than 50 countries) meeting, Iranian President Khatami met twice with Saudi Crown Prince Abdullah, the first such high-level meetings between Iranian and Saudi leaders since the 1979 Iranian Revolution. The meetings led to steadily better relations between the two countries. In February 1998, former President Rafsanjani visited Saudi Arabia for 10 days for talks on improving bilateral ties and formulating a “security and economic strategy” for boosting security in the region. Rafsanjani was the most senior Iranian to visit Saudi Arabia since the 1979 Iranian Revolution. Iranian and Saudi relations continued to improve in 1998 and 1999, including a visit by President Khatami to Saudi Arabia in May 1999.

In the spring of 2000, Iran and Saudi Arabia developed a pact that some initially called as a “defense pact,” but was actually an agreement to fight crime, terrorism, and drug trafficking.
Neither state is interested in a true alliance, but this normalization of relations between the two countries reshapes the balance of power in the region against Iraq, which both conceive as a common enemy. It is hardly surprising that Iraq has been critical of the rapprochement that increasingly isolates it among the other states of the region.

Iran has also improved relations with Kuwait, Bahrain, Qatar, and Oman. There seems to be a broad understanding in Iran that its efforts to export a Persian-Shi’ite form of Islamic Revolution have failed, and have no prospects future success. While some hardliners still have hopes, it seems likely that leaders as Khatami, Rafsanjani, and Khamenei all realize that better relations with the Southern Gulf states reduce the chance of any clash with the US, undermine support for US sanctions, and undercut support for Iraq.

The key remaining problem area in Iranian relations with the Southern Gulf states is the UAE. As has been discussed earlier, Iran seized Abu Musa and the Greater and Lesser Tubs from the emirate of Ras al-Khaimah in 1971. Iran claimed full sovereignty, but reached a face-saving agreement with the UAE to “share” Abu Musa. In 1992, Iran claimed sovereignty over Abu Musa despite the 1971 agreement between the two countries. The UAE still maintained joint control of Abu Musa until 1994, when Iran took full control of the island. Negotiations with the United Arab Emirates (UAE) over Abu Musa and the Tunb Islands have remained stalled ever since.

The Iranian Foreign Ministry issued a statement in December 1995 declaring that the islands are "an inseparable part of Iran." In 1996, Iran took further steps to strengthen its hold on the disputed islands. These moves included starting-up a power plant on Greater Tunb, opening an airport on Abu Musa, and planning the construction of a new port on Abu Musa. Iran also rejected a proposal by the Gulf Cooperation Council in March 1996, which advocated that the International Court of Justice resolve the dispute, an option supported by the UAE.

The UAE has generally received strong support from the GCC, the United Nations and the United States, but Iran can scarcely be disappointed by the fact that the UAE and Saudi
Arabia quarreled over Saudi Arabia’s steadily improving relations with Iran in May-June 1999. In December 1997, the UAE called for talks with Iran over the islands. In early March 1998, the GCC, while praising Iran's President Khatami, issued a statement supporting the UAE in its dispute with Iran over Abu Musa and the Tubs. Since that time, Iran has shown that it is at least willing to discuss the issue with the UAE, and the foreign ministers of the two countries have exchanged visits. At the same time, Iran is equally aware that even the UAE is not completely unified over this issue. The Emirate of Dubai is one of Iran’s most important trading partners, while Abu Dhabi and Ras al-Khaimah that are responsible for much of the anti-Iranian rhetoric. A waiting game favors Iran.

**Iran and Iraq**

Iran still sees Iraq as its most serious enemy, although it has made efforts to reduce the level of tension between them. Iraq and Iran opened a dialogue in 1997 that led to an exchange in April of 1997 of the remains of 75 soldiers killed on both sides during the Iran-Iraq War. Since that time Iran and Iraq have agreed to exchange all prisoners, and establish more normal relations, and Iraq allowed Iranian pilgrims to visit Shi’ite religious shrines in Iraq for the first time since 1979. Iran has also sporadically assisted Iraq in smuggling refined products, mainly diesel fuel, to international markets. Relations, however, are still anything but friendly. Major problems exist over Iraq’s treatment of its Shi’ites and the assassinations of three major ayatollahs in Iraq during 1998-1999. Both nations deploy a substantial portion of their military forces to defend against an attack by the other state, and both host armed opposition movements that oppose the other’s regime on their territory. Both have lasting memories of the Iran-Iraq War, and both are involved in a race to proliferate. Iran has repeatedly attacked by the People’s Mujahideen, a violent opposition group based in Iraq, on and has bombed its bases in Iraq in 1997, 1998, 1999, and 2000.

**Terrorism, Unconventional Warfare, Israel, and Lebanon**
Iran has begun to openly debate its attitudes towards Israel since President Khatami’s election. While Iran’s statements are often ambiguous and sometimes contradictory, both President Khatami and his foreign minister have indicated on several occasions that a peace Syria agrees to will be seen as legitimate, that Iran’s support of Hezbollah may only extend to the liberation of Lebanon, and that Iran will accept a peace to which the Palestinian people agree. However, such statements are ambiguous and the Ayatollah Khamenei and Iran’s traditionalists still see Israel as an illegitimate entity. Iran’s hard-liners continue to see Israel as an enemy that must be destroyed.

Unfortunately, Iran’s hard-liners seem to control Iran’s military liaison with Syria, its support of Hezbollah in Lebanon, its acquisition of long-range missiles and weapons of mass destruction, and its support of anti-peace factions among the Palestinians like Hamas and Islamic Jihad. There is also a broader based concern in Iran about Israel’s long-range strike capabilities and nuclear weapons and is treatment of the Palestinians and occupation of Lebanon, that cuts across factional lines.

The 1999 edition of the US State Department report on the Patterns in Global Terrorism describes Iran’s involvement in terrorism as follows:  

Although there were signs of political change in Iran in 1999, the actions of certain state institutions in support of terrorist groups made Iran the most active state sponsor of terrorism. These state institutions, notably the Revolutionary Guard Corps and the Ministry of Intelligence and Security, continued to be involved in the planning and execution of terrorist acts and continued to support a variety of groups that use terrorism to pursue their goals.

A variety of public reports indicate Iran’s security forces conducted several bombings against Iranian dissidents abroad. Iranian agents, for example, were blamed for a truck bombing in early October of a Mujahedin-e Khalq (MEK) terrorist base near Basrah, Iraq, that killed several MEK members and non-MEK individuals.

Iran continued encouraging Hizbullah and the Palestinian rejectionist groups—including HAMAS, the Palestinian Islamic Jihad, and Ahmad Jibril’s PFLP-GC—to use violence, especially terrorist attacks, in Israel to undermine the peace process. Iran supported these groups with varying amounts of money, training, and weapons. Despite statements by the Khatami administration that Iran was not working against the peace process, Tehran stepped up its encouragement of, and support for, these groups after the election of Israeli Prime Minister Barak and the resumption of Israel-Syria peace talks. In a gesture of public support, President Khatami met with Damascus-based Palestinian rejectionist leaders during his
visit to Syria in May. In addition, Iranian Supreme Leader Khamenei reflected Iran’s covert actions aimed at scuttling the peace process when he sponsored a major rally in Tehran on 9 November to demonstrate Iran’s opposition to Israel and peace. Hizballah and Palestinian rejectionist speakers at the rally reaffirmed their support for violent jihad against Israel. A Palestinian Islamic Jihad representative praised a bombing in Netanya that occurred days before and promised more such attacks.

Tehran still provided safehaven to elements of Turkey’s separatist PKK that conducted numerous terrorist attacks in Turkey and against Turkish targets in Europe. One of the PKK’s most senior at-large leaders, Osman Ocalan, brother of imprisoned PKK leader Abdullah Ocalan, resided at least part-time in Iran. Iran also provided support to terrorist groups in North Africa and South and Central Asia, including financial assistance and training.

Tehran accurately claimed that it also was a victim of terrorism, as the opposition Mujahedin-e Khalq conducted several terrorist attacks in Iran. On 10 April the group assassinated Brigadier General Ali Sayyad Shirazi, the Iranian Armed Forces Deputy Chief of the Joint Staff.

As has been noted earlier, other aspects of Iran’s ties to terrorism remain ambiguous. Iran has reduced its subversive and terrorist activity in the Gulf and Europe, but it has not reduced its surveillance of US forces and facilities in the region nor reduced its arms shipments to Hezbollah. Iran supplied Hezbollah with new, longer-range rockets, although these may have been shipped before the election of the moderate Khatami. Mohammed Sadr, Iran’s new Deputy Foreign Minister, first visited Damascus on September 9, 1997 to discuss the security situation in Lebanon and pledged continued military aid to Hezbollah. Since then, Iran has continued to ship plane-loads of arms to the Hezbollah, and Iranian senior officials have continued to meet regularly with Syrian officials and the leadership of Hezbollah. Iran also continues to provide funds and paramilitary training to extremist Palestinian groups like the armed wing of Hamas and the Palestinian Islamic Jihad.

At a theoretical strategic level, Iran and Israel have little reasons for conflict, particularly now that Israel no longer occupies the largely Shi’ite areas in Southern Lebanon. Nevertheless, Israel makes a convenient political whipping boy for Iran, and one where the whip is often wielded out of real conviction. Until the peace process is fully successful revived, and receives broad Arab and Islamic support, Iran is almost certain to continue to attack Israel’s legitimacy and to support Arab hard-liners. This will probably involve the support of violent anti-Israeli groups, and military cooperation with Syria. The most the US and the West can realistically hope for is that Iran will soften its rhetoric and not actively and openly support violence.
Iran, Afghanistan, Pakistan, and Central Asia

As is discussed in Chapter X, Iran has many of the same problems with Afghanistan as the US. Despite substantial interdiction efforts, Iran remains a key transshipment point for Afghani heroin shipments to Europe; and domestic consumption of narcotics remains a persistent problem. The Iranian press reports estimates that there are at least 1.2 million drug users in the country. Afghanistan’s “Islamic Revolution” also persecutes its Shi’ites and has created a massive refugee problem in Iran. As a result, Iran is now in the ironic position of suffering more from Islamic extremism than any other nation in the Gulf. It is also clear to Iran that it is Sunni’s and “Neo-Wahhabis,” that dominate religious fervor in Central Asia, and cannot exert major influences over any Caspian or Central Asian regime. Iran has far more to gain from trade, gas and oil swaps than political adventures.

The Challenge of Iran’s Energy Policy and Sanctions

For the world outside the Gulf, the key strategic issue in Iran is energy. Whatever happens in terms of its domestic politics, Iran will have vast strategic importance in shaping the future of the world’s energy balances. The U.S. Department of Energy estimates that Iran holds 93 billion barrels of proven oil reserves, or roughly 9% of world’s total. The majority of Iran’s crude oil reserves are located in giant onshore fields in the Khuzestan region near the Iraqi border and Persian Gulf terminus. More than half of Iran’s 40 producing fields contain over one billion barrels of oil. The onshore Ahwaz, Marun, Gachsaran, Agha Jari, and Bibi Hakimeh fields alone account for about two-thirds of Iran’s oil production. Most of Iran’s crude oil is low in sulfur and light, with gravities in the 30°-39° API range.

Iran may also have large additional reserves. Iran was not been able to carry out intensive oil exploration activity for nearly two decades because of the fall of the Shah, the Iran-Iraq War, and economic problems. It has, however, made important discoveries in recent years. While it has sometimes made exaggerated claims, the National Iranian Oil Company (NIOC) has made several
sizable oil discoveries since 1998. These include the 2.5-billion-barrel Darkhovin field, located offshore near Abadan, and a giant onshore field called Azadegan which was discovered in 1999 and is located in the southwestern province of Khuzestan which Iran found in October 1999. Iran claims the Azadegan field could contain 26 billion barrels of oil, with potential recoverable reserves of 5-6 billion barrels and production levels of 400,000 bbl/d. Iran claimed in August 2000 that it had discovered a another new field with reserves of more than one billion barrels in Southern Busher province, and a new gas field with more than 800 billion cubic feet of gas. A week earlier, it has said it has discovered a new gas field with 4.7 trillion cubic feet of gas at Homa. Iran now claimed its total oil reserves were 520 billion barrels, and that 25% would be recoverable with modern enhanced oil recovery (EOR) technology.

Iran is OPEC’s second largest oil producer, with an average current output of 3.55 million bbl/d (MMBD), nearly all of which is crude oil. Iran’s current sustainable production capacity is estimated at around 4 MMBD, but this figure is controversial, with some claiming that Iran has maintained production levels at some older fields only by using methods that have permanently damaged the fields.

The EIA estimates that Iran will expand its oil production capacity from an average of 3.9 million barrels per day in 1998, to 4.3 MMBD in 2005, 4.5 MMBD in 2010, and 5.5 million barrels per day in 2020. To put these numbers in perspective, the EIA estimates that Iran will maintain a steady 5% share of world production from the present to 2020. It is important to note, however, that Iran is also a heavy domestic consumer of oil. Its daily use is roughly 46 million litres, largely because prices are so low there is little excuse for efficiency. As a result, Iran has roughly the same oil consumption as India, which has a population nearly 12 times larger.

Iran is also a major gas producer. It has gas reserves of 812. 3 TCF. Iran has the second largest set of national reserves in the world, and is 15.7% of all proven world reserves. The bulk of Iranian gas reserves are located in non-associated fields, and has not been developed, meaning that Iran has huge potential for gas development. Besides domestic consumption, which is

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growing rapidly, Iran also has the potential to be a large natural gas exporter. In 1998, Iran produced about 1.9 Tcf of natural gas. Currently, natural gas accounts for around 40% of Iran's total energy consumption.

Iran continues to promote export markets for its natural gas. Options include pipelines to Turkey, Armenia, Europe, Pakistan, and India, plus the possibility of an LNG facility for producing exports to Asia. Iran and Turkey signed a $20-billion agreement in 1996 that calls for Iran to supply Turkey with natural gas over a period of 22 years. Turkey began construction of a 623-mile pipeline in November 1998 that could transport gas westward from Iran, and exports of Iranian gas were slated to start in 1999 at an initial rate of 300 Mmcf/d and rise to a level of 1,000 Mmcf/d in 2005... In January 2000, however, Iran said that it accepted Turkey's request to delay the purchase of Iranian natural gas until September 2001. Turkey said that it had been unable to complete its portion of the pipeline due to economic problems.\(^{17}\)

**Iran’s Energy and Sanctions**

The dilemma for US policy is that US sanctions are now designed to block precisely the kind of Iranian energy development that the US and the global economy need. The US placed Iran under unilateral sanctions when the US Congress unanimously passed the Iran-Libya Sanctions Act (ILSA) and President Clinton signed it into law by in August 1996. This act imposes mandatory and discretionary sanctions on non-U.S. companies which invest more than $20 million annually (lowered in August 1997 from $40 million) in the Iranian oil and gas sectors.

The passage of ILSA was not, however, the first U.S. sanction against Iran. The US Congress had previously pressured President Clinton into signing two Executive Orders in early 1995 that prohibit U.S. companies and their foreign subsidiaries from conducting business with Iran. These executive orders also ban any “contract for the financing of the development of petroleum resources located in Iran.” On August 19, 1997, President Clinton signed a broader
order -- Executive Order 13059 -- reaffirming the prohibition of virtually all trade and investment activities by U.S. citizens in Iran are prohibited.\textsuperscript{18}

It is important to note that President Clinton issued these Executive Orders and signed the ILSA for reasons that had for more to do with domestic politics than foreign policy considerations. He was under sharp Congressional pressure because of his personal problems. Republican Congressmen were trying to portray the President as weak on Iran, and were seeking the support of pro-Israel lobbying groups.

Clinton embraced the congressional sanctions policy in spite of the advice of advisors who felt that it would do more to reinforce the anti-US position of Iran’s hardliners than effect Iran’s military efforts. They pointed out that Iran was not involved in a major military build-up and could afford to fund its efforts to proliferate and improve limited parts of its capabilities to attack shipping in the Gulf regardless of US sanctions. It was also clear that the US had no hope of winning broad allied and international support; and that President Rafsanjani – President Khatami’s predecessor – was seeking to reach some form of accommodation with the US by offering Iranian oil deals to US firms on favorable terms.

**The Impact of US Sanctions**

As a result of the Executive Orders that President Clinton signed in 1995, Conoco was obligated to abrogate a $550-million contract to develop Iran’s offshore Sirri A and E oil and gas fields. This blocked President Rafsanjani’s efforts to make an indirect approach to improving relations with the US, and set a precedent that has been all to clear to President Khatami. The threat of secondary U.S. sanctions also deterred some multinationals from investing in Iran. In August 1996, Australia’s BHP withdrew from a proposed $3-billion pipeline project to transport Iranian natural gas to Pakistan and India under the threat of U.S sanctions. U.S. efforts to discourage the Indonesian firm Bakrie from proceeding with the development of the Balal oilfield probably contributed to Bakrie’s decision to withdraw, although the impact of the Asian financial crisis may have been at least as important.

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As was expected, however, US attempts to implement ILSA ran into strong opposition from most foreign governments. The European Union (EU) opposed the enforcement of ILSA sanctions on its members, and passed resolution 2271 directing EU members to not comply with ILSA on November 22, 1996. The US was forced to back down and the EU and the U.S. reached an agreement on a package of measures to resolve the ILSA dispute at the EU/US Summit in London on May 18, 1998.

**Iran’s Buyback Options**

Iran reacted by existing new incentives for foreign investment. The Iranian constitution prohibits granting of petroleum rights on a concessionary basis to any private or outside interest. However, the Petroleum Law of 1987 permits the establishment of contracts between the Ministry of Petroleum, state companies and "local and foreign natural persons and legal entities." In August 1998, the ministry announced invitations to bid on 43 petroleum projects worth some $8 billion in what has come to be known as the "buyback" investment methodology.¹⁹

The EIA reports that these buyback contracts are essentially risk-service contracts where the contractor funds all investments. The contractor then recovers its investment from producing a commercial field and receives remuneration from NIOC. The remuneration is based on an agreed contractor rate of return (15-17%) and is paid in the form of NIOC’s allocation of a share of production equal in value to the amount due. This system has drawbacks for both sides: the NIOC has to offer a fixed rate of return and bears all the risk of low oil prices. If prices drop, NIOC has to sell more oil or gas to meet the compensation figure. At the same time, companies have no guarantee that they will be permitted to develop their discoveries, let alone operate them.

In spite of US sanctions and such drawbacks, these new Iranian incentives helped lead a consortium led by Total (France), Gazprom (Russia), and Petronas (Malaysia) to sign $2-billion buy back deal to explore Iran’s South Pars gas field on September 29, 1997, and to help develop the field during Phase 2 and 3 of its development. The US simply could not afford the
potential cost of trying to enforce sanctions to oppose this deal and had to grant the a waiver under Section 9C of ILSA by the United States in May 1998.

This set a precedent that greatly undercut the threat of US sanctions. U.S. Secretary of State Madeleine K. Albright noted that the United States had concluded that sanctions would not prevent this project from proceeding, and stated that the waiver was also granted because of the cooperation achieved between the United States, the EU, and Russia in accomplishing ILSA’s primary objective of inhibiting Iran’s ability to develop weapons of mass destruction and support of terrorism. The reality, however, was that the US had to cave because it had no support from even close allies like Britain.

Total and Malaysia’s Petronas also proceeded with development of the same Sirri A and E oil and gas fields that Conoco was developing. Technically, Total did not violate ILSA sanctions for the Sirri project despite the $600 million size of this investment because the deal was signed prior to the enactment of ILSA, but it had also carefully divested itself of any operations the US could sanction and made US threats pointless. Petronas, which acquired a 30% stake in the Sirri deal in 1996, stated in early March 1998 that it would not withdraw from the project despite U.S. objections. A wide range of other foreign oil companies are investing in Iran in spite of US sanctions.

The first major project under the buyback investment scheme became operational in October 1998. The offshore Sirri A oil field (operated by Total and Malaysia's Petronas) began production at 7,000 bbl/d, and is now producing around 20,000 bbl/d. The neighboring Sirri E field began production in February 1999, and production is expected to reach 100,000 bbl/d. In March 1998. There have been many other deals since that time. Canada's Bow Valley Energy and UK's Premier Oil signed a $270-million deal to develop the offshore Balal field. The field, which contains some 80 million barrels of reserves, will produce up to 40,000 bbl/d, possibly beginning in late 2001. Bow Valley joined with Premiera after Indonesia’s Bakrie Minarak Petroleum pulled out of the project due to financial problems stemming from the Asian economic crisis.
December 1999, the Indian Oil Corporation and the Oil and Natural Gas Corporation reportedly agreed to acquire 35% equity in Balal.

In March 1999, France's Elf Aquitaine and Italy's ENI/Agip signed a $540-million (in capital expenditures) deal for a secondary recovery program on the offshore Doroud oil and gas field near Kharg Island. The program is intended to boost production from current levels of around 150,000 bbl/d to as high as 220,000 bbl/d. Production is scheduled to begin in 2000 and peak in 2003, continuing for another 25 years.

On November 14, 1999, Shell announced that it had been chosen for an $800-million project to develop the Soroush and Nowruz offshore oil fields. These fields are located about 50 miles west of Kharg Island and contain recoverable reserves of up to 400 million barrels of mainly heavy oil. Soroush was one of the original 11 projects put out for tender by NIOC in 1995, and the project calls for Shell to raise output at Soroush to 100,000-150,000 bbl/d (from 60,000 bbl/d currently), and at Nowruz to 90,000 bbl/d. The Shell deal poses the most serious challenge yet to US sanctions under ILSA.20

Iran is also seeking buyback deals for gas. It is currently seeking some $1.4 billion in foreign investment by March 2002. This is largely to fund Iran’s master development plan for its large gas field at South Pars. In announcing these plans in August 2000, Iran’s deputy oil minister, Hamdollah Mohammed-Nejah, noted that Iran’s current gas consumption nearly equaled production, and that it had already contracted to send 228 billion meters a year to Turkey, and was negotiating contracts to see gas to Armenia, Nakhichevan, and possibly India. He stated that Iranian’s were consuming 160 million cubic meters of gas a day, and that increasing gas production by 2002 could allow Iran to export an additional $2 billion worth of oil per year.21 This again illustrates the dilemma in limiting Iran’s access to investment and its potential impact on world oil production capacity.
The Clinton Administration has effectively abandoned any rigorous effort to enforce ILSA. The United States has not only been forced to grant waivers, it has recognized that sanctions help block its efforts to establish a formal dialogue with the Khatami faction and strengthen Iran’s moderates, and have had little, if any, impact on Iran’s military efforts. The US modified its sanctions on April 28, 1999 to allow shipments of donated clothing, food and medicine for humanitarian reasons (trade in informational materials such as books and movies is also allowed). It eased sanctions further in 2000, including provisions that helped reduce sanctions on the export of pistachios – which are largely controlled by the Rafsanjani family.

However, all other U.S. sanctions against Iran remain in force. The U.S. denied Mobil’s request to swap crude oil from Kazakhstan with Iran on the same day that the humanitarian exceptions were made. Sanctions also close Iran to US companies and block them from any investments that could create strong commercial ties with Iran’s private sector and help in the course of Iranian moderation. U.S. law permits American companies to buy the bid packages ($10,000 each), but not to submit proposals. Several U.S. firms are reportedly interested in the buyback offers, including Chevron, Arco, Kerr-Mcgee, Unocal, Conoco and Mobil. Arco and Mobil have officially notified Iran that they are interested in the projects and have applied to purchase oil field data.

Sanctions and Iranian Oil Exports and Export Revenues

Iranian oil exports remain high in spite of US sanctions. Production has averaged over 3.6 MMBD in 2000, and Iran’s export quota rose close to four million barrels in September 2000. Iran also is enjoying peak oil revenues because of the recent boom in oil prices. This represents a major change and one that certainly undercuts the effectiveness of sanctions. In fact, Iran announced in October 2000 that its initial projections of $11.5 billion a year in government oil revenues would be some $7-8 billion higher than projected.

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This is scarcely something Iran can count on. Iran has faced major swings in its oil revenues over the last few decades, but far more because of internal instability, revolution, war, and the market than because of the minor impact of US sanctions. Iran’s oil revenues rose from $12.9 billion in constant $1990 dollars in 1972 to $20.9 billion in 1980, in spite of the fall of the Shah and the beginning of the Iran-Iraq War. War and cuts in oil prices reduced its total revenues to only $6.7 billion in constant dollars in 1986.  

Its revenues recovered steadily after the end of the Iran-Iraq War in 1988, surged during the Gulf War in 1990, and then remained relatively moderate until late 1997. Iran’s economy, which relies heavily on oil export revenues (around 80%-85% of total export earnings, for instance), was hit hard by the need to repay gross over-borrowing and the resulting debt built up under President Rafsanjani and by record-low oil prices during 1998 and early 1999.

Low oil prices also exacerbated Iran’s budget shortfall during 1998, which has become a chronic problem. This budget shortfall had nothing to do with the military expenditures the US was trying to limit, but rather the result of a combination of failed economic policies corruption, failed agriculture reform, the inefficiency of religious foundations and large-scale state subsidies—totaling some $11 billion per year—including foodstuffs and especially gasoline. It was also due to the near impossibility of planning stable budgets in a oil-dependent economy. Iran gains or loses around $800 million in revenues for every $1 per barrel change in the price of its oil.

The rebound in oil prices in the spring of 1999 has changed this situation. Iran’s oil export revenues are expected to reach $22 billion in 2000, up 58% from 1999 and more than double its 1998 revenues. Iran’s real GDP grew by 2.5% in 1999, and is expected to grow by at least 4.2% in 2000. Easing Iran’s budget problems, however, does not give it wealth. Its revenues for 2000 will, only total $16-20 billion in constant 1990 dollars. This is not dramatically different from Iran’s oil revenues in 1973, and Iran now has three times the population.
Despite high oil prices, Iran will also continue to face budgetary pressures despite high oil prices. It now has to pay for its past failure to effectively implement two decades of different development and reform plans under two radically different regimes, war and revolution, a rapidly growing and young population with limited job prospects and over-dependence on oil export revenues. US sanctions certainly have added to those problems. In balance, however, the US Executive Orders and ILSA may have done as much to hurt US oil companies, and isolate the US from the kind of commercial ties that might improve US and Iranian relations, than to hurt Iran.

**Energy, Iran, the US, and the Caspian and Central Asia.**

The US and Iran have taken very different positions on the development of energy in the Caspian. Iran’s strategic position has a major impact on the development of energy resources in the Caspian and Central Asia. It contends that treaties signed in 1921 and 1940 are still valid. This implies that all countries bordering the Caspian must approve any offshore oil developments. In late February 1998, Iran’s Foreign Minister Kamal Kharrazi reiterated Iran’s position that any unilateral exploitation of Caspian Sea resources would be illegal. Iran backs national zones extending several miles from the coast and a “condominium” in the middle of the Sea. Iran has stated (along with Russia) that it opposes laying an oil pipeline across the Caspian Sea floor. and Iran sees itself as a natural transit route for oil and gas exports from the landlocked Central Asian countries to world markets.36

For the same reasons that the US imposed the sanctions, U.S. policy has opposed Iran’s effort to play a role in Caspian and Central Asian efforts to develop their energy resources and the creation of new pipelines through Iran, which many outside experts feel is the shortest (and most likely the least expensive) path to the open sea, as part of its attempt to isolate Iran and to contain its influence in the region, the United States has strongly supported an agreement by Turkey, Azerbaijan, and Georgia to install a 1,080 mile $2.4 billion pipeline from Baku, Azerbaijan through the Caucasus region to the Turkish Mediterranean port of Ceyhan. Two multi-billion-
dollar agreements were signed -- by Turkey, Azerbaijan, Georgia, and Turkmenistan -- to develop the Baku-Ceyhan oil pipeline in November 1999.\textsuperscript{27}

This dispute also affects swaps of crude oil in ways that hurt US companies but ultimately are unlikely to do as much to hurt Iran. Several US and European firms have proposed oil "swaps" involving the delivery of Caspian oil to refineries in northern Iran, while the same amount of Iranian oil is exported through Persian Gulf terminals. According to Iranian Oil Minister Bijan Namdar-Zangeneh, Iran is planning to retool its oil infrastructure to accommodate such swaps, including construction of a $400-million, 240-mile pipeline from the Caspian area via Iran's Caspian port of Neka to refineries in northern Iran and to Tehran. NIOC already has reached agreement with a Chinese consortium on the technical aspects of the project, which is expected to transport 175,000 bbl/d of Caspian crude within two years, and ultimately up to 370,000 bbl/d. Also, European oil trading company Vitol has expressed interest in financing the project. The US has opposed efforts by firms like Mobil to make such swaps.\textsuperscript{28}
Figure V-1

EIA Estimates of Future Iranian and Iraqi Oil Production: Today’s “Rogues” Had Damn Well Better Be Tomorrow’s Suppliers: 1995-2020
(EIA Reference Case Estimate in MMBD)

<table>
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The Challenge of Iran’s Military Forces and Proliferation

The primary threat US policy towards Iran must deal with is not terrorism or the export of revolution, but rather the risk of Iran might use military force to threaten or intimidate its neighbors. At the same time much of Iran’s military behavior is defensive and is explained by the continuing threat from Iraq, its fear of U.S. intervention, and its desire to play a major – if not dominant – military role in the region.

Iraq’s military capabilities may have been greatly weakened by the Gulf War, but Iraq remains a stronger military power than Iran. Iraq has roughly 429,000 active men in armed forces versus approximately 585,000 men (plus 250,000 conscripts) in both Iran’s regular forces and the Revolutionary Guards. Iraq has 2,200 main battle tanks and about 2,900 other armored vehicles compared to less than 1,400 and 700 respectively for Iran.29 The only category of major land weapons in which Iran is superior is artillery, and this superiority consists largely of obsolete towed artillery weapons that have defensive value, but which are extremely difficult to use effectively in maneuver warfare.

Iran has developed a carefully focused military capability to threaten shipping in the Gulf. This capability includes the purchase of three Russian submarines with mine-laying capabilities, and advanced naval mines. It includes the deployment of a wide range of anti-ship missiles on small craft and in land bases near the main shipping channels through the Gulf. It includes the creation of a large force of Revolutionary Guards equipped for anti-ship and amphibious warfare. Iran now has enough naval capability stationed along the Gulf coast, in the Strait of Hormuz, and deployable in the Gulf of Oman to harass shipping and require a major U.S. response if Iran should take offensive action. Iran has also focused its resources on obtaining long-range missiles and weapons of mass destruction, and the ability to fight unconventional warfare.

This kind of “focused poverty” allows Iran to get the maximum amount of regional influence and intimidation per Rial, but it has scarcely given Iran much war fighting capability against any regional coalition that involves the U.S. Iran also has good reasons not to become
involved in such a war. It is highly dependent on its oil export revenues and has no way to export any significant volume of oil except through the Gulf. It cannot defend its oil facilities against U.S. missile and stealth bomber attacks, and its naval and anti-ship missile forces cannot survive for more then days to weeks in the face of U.S. military action. Iran’s mine warfare capabilities may pose a threat in terms of long-term harassment, but they cannot block the Gulf. Iran lacks modern land-based air defenses, has limited modern fighter strength, has only about 30 modern attack aircraft (the Su-24), and has no modern airborne sensors and command and control assets. Its military forces and bases are open to U.S. retaliation.

The Size and Character of Iran’s Military Efforts

US experts feel that the regular Iranian land forces has around 175,000-180,000 men, the air and air defense forces have 30-35,000, and the Navy has around 18,000. They estimate that the Revolutionary Guards have around 120,000 men with a naval branch of 18,000-20,000. Iran also has around 300,000 men in various militia, paramilitary, and national police forces. These figures seem likely to provide the most accurate picture of Iran’s manning levels. USCENTCOM has provided different figures. The regular army is estimated to have around 300,000 actives. The Revolutionary Guards to have a total strength of around 170,000. The Air Force and Air Defense Force are estimated to have 35,500, and the Navy to have 18,000. This gives Iran’s land forces a total strength of 470,000 actives.30

The IISS estimates that Iran’s military forces total 513,000 actives, with about 220,000 conscripts. The regular army has about 325,000 actives, including 220,000 conscripts. The Revolutionary Guards have a total strength of around 125,000, roughly 100,000 of which are assigned to the land branch. The Iranian air force and air defense force have around 45,000, and the IISS reports strength of the air branch of the Revolutionary Guards as part of the land branch, but they may have up to 5,000 men. The regular Iranian Navy is estimated to have 18,000-20,600 men, and the Iranian Naval Guards to total about 20,000 (including 2,000 in IRGC naval air and marine forces). The IISS also estimates that Iran has roughly 200,000 personnel assigned to the
Basij (Population Mobilization Army), with about 90,000 full time actives. The law-enforcement forces include a total of around 150,000, with more than 40,000 paramilitary Gendarmerie and border guards.  

**Iranian Military Expenditures**

Iran has cut its military expenditures since the Iran-Iraq War, and it has done so in spite of the fact it lost some 40-60% of its holdings of major land weapons during the climatic battles of the war in 1988, and much of its military inventory is becoming obsolete. US government estimates indicate that Iran’s real defense spending is now less than one-half of the level it reached during the Iran-Iraq war, but that Iranian military expenditures still average over $4.0 billion a year.

Measured in constant 1997, dollars, Iran’s military expenditures peaked in 1986, at a cost of well $15 billion. They dropped from $8.3 billion to $6.8 billion immediately after the cease-fire in the Iran-Iraq War, when Iran clearly made a decision not to try to pay to recoup its losses during that war. They then dropped from $7.2 billion in 1990 to $4.2 billion in 1992 after Iran assessed the degree to which the UN Coalition destroyed much of Iraq’s military capability in the Gulf War. They were $5.0 billion in 1993, $4.8 billion in 1994, $3.6 billion in 1995, $3.9 billion in 1996, and $4.7 billion in 1998. Ironically, they rose after the US imposed sanctions in an effort to cut them.  

To put such spending levels in context, Egypt’s total spending during 1990-1995 averaged around $1.7 to $2.7 billion. Iraq’s expenditures averaged around $10 billion during 1988-1991, but no firm recent figures are available. Kuwait’s spending reached peaks of $15 billion a year during 1990-1992, but dropped to $3.2 to 3.6 billion from 1993-1995. Turkey has recently spent between $6 billion and $7 billion. The UAE spends around $1.8 to 2.2 billion annually, and Saudi Arabia spends $17.2 to $20 billion.  

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There are differences of opinion within the US government over the size of these Iranian military expenditures. For example, US intelligence experts felt in 1994 that Iran had spent up to $8 billion on military forces in 1993, while ACDA estimated only $4.9 billion. The CIA issued revised estimates in 1995 that stated it could not make accurate conversions of expenditures in Iranian Rials to dollars, but indicated that Iran had reported it had spent 1,785 billion Rials on defense in 1992, including $808 million in hard currency, and 2,507 billion Rials in 1993, including $850 million in hard currency.34

The International Institute of Strategic Studies (IISS) has also produced different figures. It estimates that Iran’s economic problems and defeat in 1988 reduced Iran's defense spending from $9.9 billion in 1987/88, to $5.8 billion in 1989/90, $3.2 billion in 1990, $5.8 billion in 1991, $1.8-2.3 billion in 1992, $4.86 billion in 1993, $2.3 billion in 1994, $2.5 billion in 1995, $3.6 billion in 1996, $4.7 billion in 1997, $5.8 billion in 1998, $5.7 billion in 1999, and $7.2 billion in 2000.35

There is little debate, however, that the average level of Iranian defense spending dropped sharply after the end of the Iran-Iraq War and remains relatively low. At some point in the mid-1980s, Iran chose to make major cuts in its total military spending in spite of the fact that it was still fighting the Iran-Iraq War. The most likely explanation is that it no longer felt that Iraq could succeed in winning the war, but it may also have been unable to sustain the peak level of spending it reached in 1986.

**Iranian Arms Transfers**

These trends in total military spending inevitably affect Iran’s arms imports and military modernization efforts. They help explain why Iran faces major problems in modernizing and expanding its forces, and continues to have problems with interoperability, standardization, and quality. At the same time, declassified US intelligence data on Iranian arms transfers reveal
patterns that follow indicate the reasons for Iran’s actions are more complex than the economics of Iranian military spending.

- Figure V-2 compares Iranian and Iraqi arms deliveries and shows that Iran faced a far less serious threat after the arms embargo the UN placed on Iraq in mid-1990.

- Figure V-3 shows that Iran seems to have made a strategic decision after its defeat in the Iran-Iraq War not to engage in a major conventional arms build-up and to concentrate on economic development. It then made much more serious cuts in its arms buys after the UN’s shattering defeat of Iraq in 1991, and could sustain these cuts because Iraq has remained under an arms embargo ever since. Ironically, the US efforts to sanction Iran coincided with the first real rise in Iranian arms deliveries since the end of the Iran-Iraq War.

- Figure V-4 shows that Iran has made major cuts in its new arms agreements with Russia since 1996, and has increasing had to rely on lower quality suppliers like China.

- Table V-1 shows the trends in Iranian conventional arms transfers relative to those of the rest of the Gulf states. They make it clear that Iran’s arms transfers have been very limited by the standards set by the Southern Gulf states. (Graphic comparisons are shown in Chapter V.)

The more detailed patterns in Iranian arms transfers over time reinforce the points made in Figures V-2 to V-3 and Table V-1. During the mid-period in the Iran-Iraq War, Iran was unable to obtain arms from the US, Russia, or the major West European powers – its former major suppliers. It signed only $10 million worth of agreements with the FSU, only made covert arms purchases from the US as part of the Iran-Contra deal, and bought $865 million worth of relatively unsophisticated weapons from the major West European powers. It did, however, buy $3,835 million from other European powers, most in Eastern Europe. It bought $1,845 million from China, and $2m385 from other states. These included large buys of arms from North Korea, and buys of parts and surplus US equipment from Vietnam.

Iran made a major effort to acquire most sophisticated arms from the FSU in the years that followed. It signed $10.2 billion worth of new arms agreements during the four year period between 1987-1990 – the time between the final years of the Iran-Iraq War and the Gulf War. It signed $2.5 billion worth of agreements with Russia, $3.4 billion with China, $200 million with Western Europe, $2.1 billion with other European states (mostly Eastern Europe), and $2.1 billion with other countries (mostly North Korea). It is also clear that Iran began to concentrate its
limited resources on higher quality arms following the end of the Iran-Iraq War, and cut back on the purchases of large amounts of towed artillery, munitions, and low quality weapons it had needed for a war of attrition with Iraq.\textsuperscript{37}

Iran’s new arms agreements dropped sharply, however, during the four year period following the Gulf War. They totaled only $4.8 billion during 1991-1994.\textsuperscript{38} Despite some reports of massive Iranian military build-ups, new agreements during 1991-1994 totaled only a quarter of the value of the agreements that Iran had signed during the previous four years. It signed $1.2 billion in new agreements with Russia, but only $400 million with China, $100 million from other European states (mostly Eastern Europe), and $900 million from other countries (mostly North Korea. Iran got no new orders from the US and only $100 million from Western Europe.\textsuperscript{39}

It is difficult to discuss trends precisely because some US government reporting only declassifies data for blocks of several years, and these blocks of time are not always comparable. However, the US estimates that Iran signed only $1.3 billion worth of new arms agreements during 1993-1996 -- a period heavily influenced by an economic crisis inside Iran, low oil revenues, and problems in repaying foreign debt. Iran ordered $200 million from Russia, $300 million from China, $100 million with other European states (mostly Eastern Europe), and $600 million from other countries (mostly North Korea).\textsuperscript{40} The drop in agreements with Russia reflected both Iran’s financial problems and the result of US pressure that had led President Yeltsin not to make major new arms sales to Russia. Iran’s new agreements with China and North Korea heavily emphasized missiles and missile production technology.

If one looks at deliveries over the period from 1992-1995, Iran took delivery on a total of $3 billion worth of arms, versus only $1.1 billion worth of new orders. The difference is explained by Iran’s large backlog of orders that can take one to five years to deliver. It obtained $1.7 billion worth of arms from Russia, $700 million from China, $100 million from major West European states, $200 million from other European states, and $300 million from other powers.\textsuperscript{41}
Iran signed $1.1 billion worth of new arms agreements during 1996-1999 -- a period still heavily influenced by an economic crisis inside Iran, low oil revenues, and problems in repaying foreign debt. Iran ordered only $200 million worth of new arms agreements from Russia, $800 million from China, and $100 million from other countries.\(^{42}\) The drop in new arms agreements with Russia reflected both Iran’s financial problems and the result of US pressures that had led President Yeltsin not to make major new arms sales to Iran. Iran’s new agreements with China and North Korea heavily emphasized missiles and missile production technology.

Arms deliveries followed a different pattern, again reflecting the delay between orders and deliveries. The US State Department reports that Iran took delivery on $1.6 billion worth of arms in 1991, $859 million in 1992, $1.4 billion in 1993, $390 million in 1994, $330 million in 1995, $350 million in 1996, and $850 million in 1997, as measured in current dollars.\(^{43}\) Once again, it is interesting to note that Iranian arms import efforts actually increased after the US imposed sanctions.

If one looks at the source of deliveries during this period, Russia delivered $700 million worth of arms between 1996 and 1999. This largely reflected the backlog of orders from the period before the US and Russia reached an agreement that Russia would not provide destabilizing transfers of conventional weapons. Iran also took delivery on $700 million worth of arms from China and $300 million from other sources.\(^{44}\) However, declassified US estimates of new Iranian arms purchases during 1998-1999 do present a statistical problem. If one compares the reporting for two different blocs of time, the difference between the two reporting periods implies that Iran signed a total of $500 million worth of new arms agreements with Russia between 1998 and 1999. Unfortunately, the US data do not explain what Iran bought, or if such statistical differences are even relevant. The reporting on the Iranian order of battle certainly does not indicate any deliveries reflecting such orders.\(^{45}\)
If one looks at the entire period between 1992 and 1999, Iran signed only $2.2 billion worth of new arms agreements, but took delivery on $4,700 worth. Iran ordered a total of $400 million in new arms agreements from Russia, $1000 million from China, $500 million with other European states (mostly Eastern Europe), and $300 million from other countries (mostly North Korea). 46

In short, the overall patterns in Iranian arms transfers reflect what seem to be clear strategic decisions by Iran that it did not have to cripple its economy to buy new arms after its defeat by Iraq in 1988, and that it could then afford to make further cuts in arms buys after Iraq’s conventional forces were shattered in the Gulf War in 1991. At the same time, Iran was driven to cut its arms buys by severe internal economic problems, and by the fact the US had considerable success in limiting Iran’s access to advanced arms from Europe and Russia between 1995 and 1998.

These patterns do not mean that Iran’s military efforts were crippled, or that it did not make some important arms buys. Its carefully focused arms purchases as discussed by service in the sections that follow and more broadly in Chapter VII. It is also clear that the effectiveness of the US-Russian agreement to limit arms transfers that was signed in 1995 may be eroding. Most important, such figures on conventional arms transfers do not include the costs of Iran’s efforts to proliferate, which are discussed in detail in Chapter IX. Iran seems to have made a strategic decision to emphasize weapons of mass destruction over conventional arms. It is again one of the ironies of US efforts to sanction Iran that Iran increases its expenditures on both proliferation and conventional arms after the Clinton Administration signed Executive Orders sanctioning Iran and the US Congress passed ILSA.

Finally, while Iran has not yet mass-produced any major modern weapons systems domestically – as distinguished from assembled kits of weapons like the T-72 and BMP-1 -- Iran
has made major efforts to reduce its dependence on imports. It has also demonstrated a number of key weapons prototypes. These efforts include the following developments:

- Showed prototype of a main battle tank called the Zulfiqar (Zolfaqar) in 1994. Tank has undergone field trials ever since the Velayat military exercises of May 1996. Its drive train and suspension seems to be modeled on the US-designed M-48A5 and M-60A1 series of tanks and to have either a 105 mm or 125mm rifled gun. Reports differ as to the Zulfiqar’s production status. One report indicates that Iran announced on July 8, 1997, that President Rafsanjani opened the “first phase” of a plant to produce the tank in Dorud, some 300 kilometers southwest of Tehran. Another report indicates that it will be produced at the Shahdid Industrial Complex.

- Claims ready to produce light tank for “unconventional warfare” called the Towan (Wild Horse) with 90 mm gun.

- Developed Iranian-made modification of the Chinese Type WZ 501/503 armored infantry fighting vehicle which Iran calls the Boragh. The WZ 501/503 is itself a Chinese copy of the Russian BMP, and is 30 year old technology.

- Displayed APC called the Cobra or BMT–2, which seems to be an indigenous design armed with a 30 mm gun or the ZU-23-2 anti-aircraft gun -- a light automatic weapons system that Iran has been manufacturing for some years. Like the Zulfiqar, the Cobra has been undergoing field trials in Iranian military exercises since May 1996.

- Produces a copy of the Russian AT-3 9M14M (Sagger or Ra’ad) anti-tank guided missile.

- Claimed in May 1996, to have produced a self-propelled version of a Russian 122 mm gun that it called the Thunder-1, with a firing range of 15,200 meters and a road speed of 65 kilometers per hour.

- Makes military radios and low-technology RPVs like the 22006, Baz, and Shahin.

- Claims to have built its first Iranian-designed helicopter, and to have tested a locally-built fighter plane. Brigadier General Arasteh, a deputy head of the General Staff of the Armed Forces (serving under Major General Ali Shahbazi, the joint chief of staff) stated in April, 1997 that the “production line of this aircraft will begin work in the near future.”

- Defense Industries Organization has claimed that Iran was soon going to start producing two trainers, a jet-powered Dorna (Lark) and propeller-driven Partsu (Swallow).

- Iranian military has claimed that Iran has begun mass production of a jet strike aircraft, the Azarakhsh (Lightning), which reportedly resembles the F-4 Phantom (JDW 4 November 1998: 20). Iran has reportedly developed a TV-guided missile for carriage on F-4 Phantoms

- Iran claims to have deployed an air-to-air adapted variant of the SMI Standard missile for its fleet of F-4D/E Phantom II fighter bombers. (JDW 29 April 1998: 17)

- President Rafsanjani announced on October 11, 1997, that Iran had test-launched a major new surface-to-air missile system with a range of 250 kilometers, although he gave no further details. The description of the
missile sounded vaguely like the Russian SA-5, which is deployed in Iran. Reports Iran has acquired four HQ-23/2B (CSA-1) launchers and 45-48 missiles, plus 25 SA-6, and 10-15 SA-5 launchers.

- Claims to produce advanced electronic warfare systems.
- Claims will soon start producing 6 multi-purpose destroyers, with initial production run of three.
- Iran claims to be developing non-magnetic, acoustic, free-floating and remote controlled mines. It may have also acquired non-magnetic mines, influence mines and mines with sophisticated timing devices.
- Iran is developing FL-10 anti-ship cruise missile that is copy of Chinese FL-2 or FL-7.
- Reportedly assembled domestic variants the YJ-1 (C-801) solid-propellant anti-ship missile under the local name of Karus, and the YJ-2 (C-802) turbojet-powered anti-ship missile under the local name of Tondar (JDW 9 December 1998)
Figure V-2

Iran Reacts to the Threat: Decline in Iranian and Iraqi New Arms Deliveries
(In Constant 1997 $US billions)
Source: Adapted by Anthony H. Cordesman from ACDA database for Table IIIA in State Department Bureau of Arms Control World Military Expenditure and Arms Transfers report.
Figure V-3

Cumulative Arms Imports of Iran - 1984-1997
(Value of Deliveries in Constant $1997 Millions)

Iran is defeated in Iran-Iran War and Loses 40-60% of its major land weapons. Iraqi conventional forces are shattered in the Gulf War and arms transfers to Iraq are embargoed. Iranian arms buys actually rise after ILSA and US executive orders.


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Figure V-4

Major Supplier Share of Total Iranian New Arms Agreements and Deliveries: 1996-1999
($Current US Billions)

0 = less than $50 million or nil, and all data rounded to the nearest $100 million.


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### Table V-1

**Gulf Arms Buys by Supplier: 1987-1999**

(New arms agreements in current US $millions)

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<th>Buyer Country</th>
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0 = less than $50 million or nil, and all data rounded to the nearest $100 million.

The Iranian Army

The Iranian regular army had a strength of around 325,000 full time actives in 2000, including around 220,000 conscripts. It had some 12 division equivalents, and around 42-45 maneuver brigades. These formations included four “armored” divisions (two with three brigades and two with four brigades), and six-seven infantry divisions. The lighter and smaller formations in the regular army included the 23rd Special Forces Division, which was formed in 1993-1994, and the 55th paratroop division. According to one source, the 23rd Special Forces Division has 5,000 full-time regulars, and one of the few fully professional units in the Iranian Army. The airborne and special forces are trained at a facility in Shiraz.

The regular army also has a number of independent brigades and groups. These include some small armored units, 1 infantry brigade, 1 airborne and 2-3 special forces brigades, coastal defense units, a growing number of air defense groups, 5 artillery brigades/regiments, 4-6 army aviation units, and a growing number of logistic and supply formations. The land forces have six major garrisons and 13 major casernes.

Most of the combat forces of the Iranian army are normally deployed in three army-sized formations and a smaller corps-sized formation located north to south along the border with Iraq. Iran seems to have been able to move some units away from the south-western border since 1991, as Iraq has concentrated its forces to deal with the domestic threat posed by its Shi'ites in the south and Kurds in the north, but tensions between the Iranian government and the Kurds have forced Iran to maintain strong forces in the northwest.

Iran has slowly rebuilt its armored strength since the Iran-Iraq War. Iran may have had a few as 500 operational main battle tanks after its defeats in 1988. It seems to have rebuilt to an inventory of 1,250 main battle tanks in early 1995. It received enough deliveries to raise this total to over 1,300 operational tanks by January, 1996, and then to around 1,345-1,390 tanks by early 2000. This total compares with around 2,700 tanks for Iraq and 710-1,055 for Saudi Arabia.
The IISS has a lower estimate of 1,135 main battle tanks, including 500 T-54/T-55s, PRC T-59s; 75 T-62s, 120 T-72s, 140 Chieftain Mark 3/5s; 150 M-47/M-48s, 150 M-60A1s, and some Iranian produced Zulfiqars. These figures do not, however, seem to include 100 T-72 tank kits that are reported to have been delivered to Iran in 1998.51

In any case, Iran’s total main battle tank holdings are only sufficient to fully equip 5 to 7 of its divisions by Western standards, and Iran could only sustain about half this force for even a weak of extended maneuver warfare. At present, many are dispersed in relatively small lots among all of its regular Army and some of its IRGC combat units. Most of the IRGC units still only have small tank force cadres and it is unclear how heavy IRGC forces become in the future. The 92nd Armored Division is the only Iranian division that has enough tanks to be a true armored division, even by regional standards.

Iran seems to have about 1,000-1,360 armored infantry fighting vehicles (AFVs) and armored personnel carriers (APCs) in its operational inventory, although counts are contradictory and it is difficult to estimate what parts of Iran’s holdings are fully operational and/or sustainable for any length of time in combat. The IISS, for example, estimates a total of 545 light tanks and armored infantry fighting vehicles, and 550 APCs. Virtually all estimates indicate, however, that Iran has less than half of the total holdings of such armored vehicles it needs to fully mechanize its forces.52 This total compares with around 3,800 such weapons for Iraq and 3,000-3,600 for Saudi Arabia. Iran does, however, have more than 300 BMP-1s and 140 BMP-2 equivalents, and at least 35 EE-9 Cascavel armored reconnaissance vehicles.53 Another 100 BMP-2 kits seem to have been delivered in 1998.

It is difficult to interpret the unclassified data available on Iranian armored operations, but Iran’s armored warfare doctrine seems to be borrowed from US, British, and Russian sources without achieving any coherent concept of operations. Even so, Iran’s armored doctrine is improving more quickly than its organization and exercise performance. Iran’s armored forces are
very poorly structured, and Iran’s equipment pool is dissipated among far too many regular and IRGC units.

Iran seems to practice the kind of armored combat that might be effective against Iraq, but its exercises are slow-moving, and emphasize daytime and short to medium-range engagements. Many are highly notional and do not involve large-scale actual movements. The movements that do take place have a preplanned, set-piece character. The tactics practices also seem to be more effective in relatively static defensive operations and limited, local counter-attack modes than in training for longer range defensive maneuvers or offensive operations. Only a few of Iran’s heavy combat brigades seem to have made real efforts to improve their combined arms operations, and conduct joint operations with airborne and air units. Nevertheless, Iran’s doctrine has become steadily more realistic and contemporary with Western and Russian doctrine. The emphasis on massed infantry, “popular armies,” and “revolutionary forces” that crippled Iran’s armored development during the Iran-Iraq War seems to have sharply diminished even before the Iran-Iraq leak ended.\(^54\)

Iran has large holdings of anti-tank guided weapons and has been manufacturing copies of Soviet-systems, while buying missiles from China, Russia, and the Ukraine. It has approximately 80-100 TOW and 20-30 Dragon anti-tank guided missile launchers that were originally supplied by the US, although the operational status of such systems is uncertain. It has introduced Soviet and Asian versions of the AT-2, AT-3, and possibly the AT-4 into its forces. Iran seems to have at least 100-200 AT-4 (9K111) launchers, but it is impossible to make an accurate estimate because Iran is producing its own copies of the AT-3.\(^55\) Iran also has roughly 750 RPG-7V, RPG-11, and 3.5” rocket launchers, and roughly 150 M-18 57 mm, 200 M-20 75 mm and B-10

Iran had some 3,000-3,400 operational medium and heavy artillery weapons and multiple rocket launchers in early 2000. This total compares with around 2,000 weapons for Iraq and 500 for Saudi Arabia. These high numbers reflect Iran’s continuing effort to build-up artillery strength that began during the Iran-Iraq War when Iran used artillery to support its infantry and Islamic
Revolutionary Guards Corps in their attacks on Iraqi forces. Iran’s holdings of self-propelled weapons still appear to include a substantial number of US-supplied systems, including 25-35 M-110 203 mm howitzers, 20-30 M-107 175 mm guns, and 150-160 M-109 155 mm howitzers. Iran also has 90-100 Austrian GHN-45 155 mm towed gun/howitzers, and 1,000-1,150 North Korean, Chinese, and Soviet M-46 and Type 59-1 towed 130 mm guns; and 550 Soviet, North Korean, Polish, and Czech D-30 122 mm gun-howitzers. Its holding include 30-35 D-20 towed 152 mm howitzers, 100 People’s Republic of China 122 mm towed howitzers, and other former Soviet bloc, PRC, and North Korean towed weapons. Iran has 700-900 multiple rocket launchers, although a number may no longer be in service or may be assigned to low-grade IRGC forces.\(^5\)

Iran’s artillery organization, doctrine, training, and equipment are obsolescent by Western standards. Iran had to use artillery as a substitute for armor and air power during much of the Iran-Iraq War, and generally used relatively static massed fires. While some regular army units used artillery more flexibly, Iran artillery tended to pound away at area targets and often with little success. Iranian forces showed little skill at targeting and often missed Iraqi concentrations or continued to fire at heavily sheltered Iraqi forces. Iran’s limited and largely obsolete artillery fire control system had serious problems in massing fires suddenly against an area, and in altering range to properly support even slow-moving infantry advances. This problem was further complicated by poor coordination between the regular forces and the IRGC.

Iran’s reliance on towed artillery still limits Iran’s combined arms maneuver capabilities, and Iran has failed to develop effective night and beyond-visual-range targeting capability. This helps explain why Iranian artillery did a consistently miserable job of targeting and striking Iraqi rear areas -- although it often inflicted serious damage on settled areas and towns -- and could not effectively engage once Iranian and Iraqi forces came into close proximity. It was also highly vulnerable to suppression by Iraqi chemical weapons. Little has changed since the Iran-Iraq war and much of Iran’s artillery fire is relatively ineffective and/or is limited to the ability to deliver harassment and interdiction fire that has limited impact on modern maneuver forces.
The Iranian land forces have a total of some 1,700 anti-aircraft guns, including 14.5 mm ZPU-2/4s, 23 mm ZSU-23-4s and ZU-23s, 35 mm M-1939s, 37 mm Type 55s, and 57 mm ZSU-57-2s. Iran also has 100-180 Bofors L/70 40 mm guns, and moderate numbers of Skyguard 35 mm twin anti-aircraft guns (many of which may not be operational). Their largest holdings consist of unguided ZU-23-2s (which it can manufacture) and M-1939s. They also have large numbers of SA-7 (Strela 2M) manportable surface-to-air missiles, and a growing number of SA-14 (Strela) manportable surface-to-air missiles. Iran also has some RBS-70 low-level surface-to-air missiles and large numbers of HN-5 manportable surface-to-air missiles.

Iranian operational helicopter holdings are uncertain. USCENTCOM reports a total of about 300 helicopters. According to the IISS and Jane’s, the Iranian Army retains 100-110 AH-1J Sea Cobra attack helicopters, and 36-40 CH-47C, 110-130 Bell-214A, 30-35 AB-214C, 35-40 AB-205A, 80-90 AB-206, 12 AB-212, 27-30 Bell 204, 5 Hughes 300C, 9 RH-53D, 10 SH-53D, 10 SA-319, and 40-45 UH-1H transport and support helicopters supplied by the West. Many experts agree, however, that Iran has a maximum of 60-80 operational AH-1s, that Iran’s Western-supplied transport and support helicopters have low operational readiness -- perhaps as low as 35%-65% of inventory -- and that its helicopter forces have little sustained sortie capability.

The exercise performance of Iran’s land forces has slowly improved since 1988, both in dealing with maneuver warfare threats like Iraq, and with the defense of Iran’s coastline. It has emphasized more modern concepts of combined operations and has sought to give its artillery more maneuver capability. Its artillery doctrine is now somewhat more modern and comparable to that of modern Western and Russian forces, although it still has serious conceptual problems in dealing with the need for more precise targeting, the rapid massing of fires, fighting night combat, and dealing with targets in rears areas. The limited data available also indicate that Iran may sharply over-estimate the lethality of artillery against most types of targets.

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At the same time, Iran is scarcely capable of rapid, fluid armored maneuver operations, and much of its exercise activity still has a set piece character that constantly announces unearned and untested successes, rather than realistically stressing and testing combat unit performance. Counterbattery capabilities also seem to continue to lag, and either lack adequate targeting or fire control systems or depend on systems that may be relatively easy to target or counter. Iran’s performance may be adequate by the generally low standards of Iraq and most Southern Gulf forces, but lags far behind the level of US and the better Western forces.

**The Islamic Revolutionary Guards Corps (Pasdaran)**

US experts believe that the IRGC have a total manning of around 120,000-125,000, of which roughly 100,000 men were in the land forces. This manpower draws heavily on conscripts chosen from the same pool as all other conscripts, without special selection as to education or ideological loyalty. It is not surprising, therefore, that over 70% of the IRGC voted for Khatami -- although important elements within the IRGC are largely career professionals and some units with internal security functions are screened for ideology and loyalty.

Unlike the regular army, which is organized as a national force, the IRGC is organized primarily along territorial lines. The IRGC was organized into eleven internal security regions, with most of its military/paramilitary forces assigned to conventional military and internal security missions. Some reports credit the IRGC with very high numbers of major units. One source quotes a strength of 15-20 "divisions." Another source refers to a build-up that was completed in 1993, and a strength of 11 regional headquarters (fully manned), two mobilizable armored divisions, and 24 cadre strength infantry divisions.

The most probable estimate of the organization of the IRGC is that its units include 13 infantry “divisions,” two armored “divisions,” and a large number of independent infantry, airborne, special forces, armored, surface-to-surface missile, artillery, engineer, border, and air defense units -- many of which were called brigades. This large order of battle, however, would
require over 250,000 men to fully man and sustain divisions that were kept as small as 10,000 actives. In practice, the IRGC should be regarded as having a total force of about 15 small combat units, only a few of which are armed well enough to be regarded as anything other than light infantry, plus a number of independent formations. These units normally have a total manning equivalent to large battalions.\textsuperscript{62}

Various leaders of the IRGC have called for more armored forces, including large numbers of T-72s. Most IRGC land forces remain light infantry forces, however, and the IRGC is only slowly being upgraded. The IRGC has set the goal of creating mechanized “divisions,” but none have yet emerged and experts have different views regarding the extent to which the IRGC will or will not establish heavy formations that parallel those of the regular army.

During the last few years, the IRGC has gotten nearly 50\% of Iran’s imports of advanced land weapons, including such key systems as T-72s and BMPs. These deliveries have been limited, however, and the IRGC tends to disperse them in small, ineffective lots throughout the IRGC’s main combat units. As a result, it will be some years before even the best IRGC units can rival the regular forces in firepower and maneuver capability unless radical changes are made in the allocation of Iran’s weapons.

The IRGC has a large component trained for covert operations and unconventional warfare. Roughly 5,000 of the men in the IRGC are assigned to the unconventional warfare mission. The IRGC has the equivalent of one special forces “division,” plus additional smaller formations, and these forces are given special priority in terms of training and equipment. In addition, the IRGC has a special Quds force which plays a major role in giving Iran the ability to conduct unconventional warfare overseas using various foreign movements as proxies.\textsuperscript{63}

As has been noted earlier, there is no way to separate the equipment holdings of the regular army and the IRGC. It is clear, however, that it is the regular army which operates most of Iran’s heavy weaponry, although the armored elements of the IRGC are slowly expanding and some

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have T-72s and armored fighting vehicles. Other IRGC units, with T-54 tanks, are reported to be upgrading their tanks with T-72 engines and laser range finders.

Like the Iranian Army, the IRGC possesses numerous anti-tank weapons, including Dragon, TOW, and AT-3 ATGMs, 3.5" rockets, and RPG-7s. It also has about 1,500 air defense guns, large numbers of small and man-portable surface-to-air missiles, and increasing numbers of the HN-5 light surface-to-air missiles. Iran's holdings of such weapons are uncertain, but it seems to be importing both Chinese and Russian short-range air defense missiles.  

The IRGC seems to be the principle operator of Iran's land-based surface-to-surface missile forces. Both the Iranian regular army and IRGC have offensive and defensive chemical warfare capabilities, but the IRGC seems to have custody of most of these weapons and to provide the military supervision for related research, development, and production activities. Such activities cannot be separated, however, from the IRGC role in other military industry and development activities.

It is extremely difficult to estimate the proficiency of IRGC units. It seems likely, however, that quality varies sharply by unit and that only a portion of the IRGC land forces are intended to participate in joint operations with the regular army in regular combat. These forces seem to have improved steadily in their training, organization, and discipline since the early 1990s, and have also expanded their joint training with the regular army, navy, and air force. Exercises in 1996 and 1997 have shown that the IRGC can support the army and navy in exercises designed to demonstrate Iran’s ability to threaten shipping traffic and combat ships in the Gulf, defend Iran’s offshore islands and facilities, deal with surprise attacks by the US, defend the border with Iraq, and close the Afghan border.

The Iranian Air Force

The Iranian air force has built back to a total active inventory of around 260-300 combat aircraft, some 50-60% of which are really operational. The Air Force also has an independent
surface-to-surface missile brigade. The air force and air defense force had a strength of about 40,000-50,000 men, with 15,000-20,000 men in the air force plus 12,000-15,000 more in the land-based air defense forces. The Iranian air force is scarcely the dominant regional force that the Shah sought to create before his fall.

A comparison of estimates by the IISS and other sources indicates that the air force had 18 main combat squadrons in 2000. These included nine fighter ground-attack squadrons, with 4/50-66 US-supplied F-4D/E and 4/55-60 F-5E/FII, and 1/24-30 Soviet-supplied Su-24. Iran had seven air defense squadrons, with 4/25-30 US-supplied F-14, 2/27-30 Russian/Iraqi-supplied MiG-29, and 1/25-35 Chinese supplied F-7M (in the Revolutionary Guards with up to 14 more in the process of delivery). According to some reports, Iran has modified its Standard SM-1 anti-ship missiles so they can be delivered by its F-4Es.

Most Iranian squadrons can perform basic air defense and attack missions, regardless of their principal mission — although this was not true of Iran’s F-14 (air defense) and Su-24s (strike/attack) units. Iran’s F-14s have not been able to use their Phoenix air-to-air missiles since the early 1980s. Iran has claimed that it is modernizing its F-14s by equipping them with I-Hawk missiles adapted to the air-to-air role, but it is far from clear that this is the case or that such adaptations can have more than limited effectiveness.

The Iranian air force has a small reconnaissance squadron with 3-8 operational RF-4Es, and possibly 5-10 additional RF-5EII. The air force has 1 RC-130 and other intelligence/reconnaissance aircraft. Iran also had 15-20 F-5B and F-5FII, 5-15 FT-7, and 7 T-33 armed training aircraft. Many of these trainers are combat-capable, although their operational status is unclear.

Iran has moderate airlift capabilities for a regional power. The Iranian air force’s air transport assets included one tanker/transport squadron with 3 B-707s and one B-747, and five transport squadrons with 6 B-747Fs, 1 B-727, 16-18 C-130E/Hs, 3 Commander 690s, 12-15 F-

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27s, and 3-5 Falcon 20As. Its helicopter strength includes 2 AB-206As, 34-39 Bell 214Cs, and 3-4 CH-47 transport helicopters. As has been discussed earlier, the bulk of Iran’s rotary wing assets are assigned to the land forces.

The IRGC also has some air elements, including Chinese-made F-7 fighters, and its air branch has had an independent commander since 1992.70

In spite of Iran’s efforts, the readiness and force quality of its air force remain major issues. The Iranian air force still has many qualitative weaknesses, and it is far from clear that its current rate of modernization can offset the aging of its Western-supplied aircraft and the qualitative improvements in US and Southern Gulf forces. The air force also faces serious problems in terms of sustainment, command and control, and training.

These are not new problems. The Iranian air force largely collapsed as a fighting force during the first two years of the Iran-Iraq War because of the lack of Western support and resupply. An estimate by the US Office of Naval Intelligence in 1996 indicated that Iran had only 175 operational combat aircraft. Roughly 44% of these aircraft were “second generation” aircraft like the Chinese F-7 and US F-5, 22% were “third generation” aircraft like the F-4 and F-14, and 34% were “fourth generation” aircraft like the Su-24 and MiG-29. The same estimate indicated that Iran’s operational strength had only increased from 150 aircraft in 1985 to 175 in 1995, and that Iran’s strength would drop to 125 aircraft in 2005.71
The Iranian air force must also deal with the fact that its primary challenge now consists of the US and Saudi air forces, rather than a typical Third World air force like Iraq’s. The US and Saudi air forces are high technology air forces that operate the AWACS airborne control system, have some of the most advanced electronic warfare and targeting systems in the world, and have full refueling capability. They use sophisticated, computer-aided aggressor training and have all of the range and training facilities for beyond-visual-range combat and stand-off attacks with air-to-surface munitions.

Iran has no airborne control system, although it may be able to use the radars on its F-14s to support other aircraft from the rear. Its overall C4I system is a totally inadequate mix of different sensors, communications, and data processing systems. It has limited electronic warfare capabilities by US standards, although it may be seeking to acquire two Beriev A-50 Mainstay AEW aircraft, and has converted some aircraft to provide a limited ELINT/SIGINT capability. It has limited refueling capabilities, lacks advanced training facilities, and has only limited capability to conduct realistic training for beyond-visual-range combat and stand-off attacks with air-to-surface munitions.

**Iranian Ground-Based Air Defenses**

Iran has assigned about 15,000-20,000 men to land-based air defense functions, including at least 8,000 regulars and 4,000 regular IRGC personnel. It is not possible to distinguish clearly between the major air defense weapons holdings of the regular air force and IRGC, but the air force appeared to operate most major surface-to-air missile systems. Iran’s land-based air defenses is shown in Table Eight, and total holdings seem to include 30 Improved Hawk fire units (12-16 battalions/100+ launchers), 45-55 SA-2/HQ-2J/23 (CSA-1) launchers (Chinese-made equivalents of the SA-2), and possibly 25 SA-6 launchers. The force also had three Soviet-made long-range SA-5 units with a total of 10-15 launchers -- enough for six sites.
Iran's holdings of lighter air defense weapons included five Rapier squadrons with 30 Rapier fire units, 5-10 Chinese FM-80 launchers, 10-15 Tigercat fire units, and a few RBS-70s. Iran also hold large numbers of man-portable SA-7s, HN-5s, and SA-14s, plus about 2,000 anti-aircraft guns -- including some Vulcans and 50-60 radar-guided and self propelled ZSU-23-4 weapons.\footnote{72}

Iran’s air defense forces have steadily increased the number of surface-to-air missile sites along the Gulf coast and on islands in the Gulf. Iran had only three major (Hawk, SA-6, SA-5) missile sites in 1992. It had ten to twelve major sites by 1997, although these sites are still too widely spaced to provide more than limited air defense for key bases and facilities, and many lack the missile launcher strength to be fully effective. This is particularly true of Iran’s SA-5 sites, which provide long-range medium-to-high altitude coverage of key coastal installations. Too few launchers are scattered over too wide an area to prevent relatively rapid suppression.\footnote{73}

Iran also lacks the low altitude radar coverage, overall radar net, command and control assets, sensors, resistance to sophisticated jamming and electronic countermeasures, and systems integration capability necessary to create an effective air defense net. Its land-based air defenses must operate largely in the point defense mode, and Iran lacks the battle management systems and data links are not fast and effective enough to allow it to take maximum advantage of the overlapping coverage of some of its missile systems -- a problem further complicated by the problems in trying to net different systems supplied by Britain, China, Russia, and the US. Iran’s missiles and sensors are most effective at high-to-medium altitudes against aircraft with limited penetrating and jamming capability.

**Iran's Naval Forces**

Iran's regular Navy, the naval elements of the Islamic Revolutionary Guards Corps, and the Iranian marines total around 38,000 men -- with about 18,000 regulars and 17,000-20,000 men in the Iranian Naval Revolutionary Guard forces. These forces are organized into two
fleets. While some sources list Iran as having three Marine Brigades, USCENTCOM estimates a total strength of only three Marine battalions. It is not clear how these marine units are structured, trained, or equipped.

There are significant differences among experts, as to how to classify given ships and count Iran’s naval order of battle. US experts now have dropped Iran’s destroyers from its operational order of battle, and feel that only five of Iran’s Combattante II (Karman-class) fast attack boats have been modernized to carry two to four C-802 Chinese anti-ship missiles. They indicate that Iran has a total of about 20 missile patrol craft. IISS estimates gave Iran a total of 3 frigates, 2 corvettes, 20 missile combatants, 3 large patrol ships, 38 inshore patrol boats, 5-7 mine warfare ships (including one training ship), 8-9 amphibious ships, 10 amphibious craft, 9 large auxiliary ships, and roughly 32 smaller auxiliary ships. Iran had 14 hovercraft, but these may no longer be operational. The IISS estimates that Iran’s naval air units had 5 aging P-3F 5 Do-228 and maritime patrol aircraft, 14 SH-3D and 6 AB-212 ASW helicopters, 9 RH-53D mine countermeasure helicopters, transports, and around 20 support helicopters.

Other sources have previously counted more ships as operational, and some estimate that all of Iran’s Combattante Is have been modernized to carry Chinese anti-ship missiles by the end of 1997. Unclassified USCENTCOM estimates have shown a total of 3 destroyers, 3 Kilo-class submarines, 2 PF-103 corvettes, 8 fast patrol boats, 7 large patrol boats, 3 minesweepers, 11 landing ships and craft, 4 logistical support ships, 2 BH-7 hovercraft, 11 fixed-wing aircraft, and 19 helicopters. The IISS and Jane’s still indicate that Iran’s destroyers are operational. According to other estimates, Iran's operational inventory includes 3 submarines, 2 destroyers, 3 frigates, 2 corvettes, and 25-30 missile combatants.

Iran has support ships, but these are generally insufficient to sustain "blue water" operations and support an amphibious task force. It has one Kharg-class 33,014 ton replenishment ship, two Bandar Abbas-class 4,673 ton fleet supply ships and oilers, one 14,410 ton repair ship, two 12,000 ton water tankers, seven 1,300 ton Delva-class support ships, 5-6 Hendijan-class
support vessels, two floating dry-docks and 20 tugs, tenders, and utility craft to help support a large naval or amphibious operation.

Iran has large numbers (20,000?) of naval Revolutionary Guards. They operate the 5-7 Seersucker (HY-2) anti-ship missile sites Iran used to defend its ports and cover the Straits of Hormuz, plus a large number of smaller anti-ship missile sites on its coast and islands, and a number of shelters and dispersal sites to which it could rapidly deploy missiles in a crisis. While it is impossible to distinguish precisely between the IRGC’s holdings of small craft and those of the regular navy, the IRGC seemed to operate large numbers of Peterson PBI coastal patrol craft, at least 6 other inshore patrol craft, some 30 Boghammer patrol boats, several hovercraft, some hovercraft, about 30 craft somewhat similar to the Boston Whaler, and large numbers of small boats similar to River Roadstead patrol craft.

Much of the regular navy is based at Bandar Abbas, the only large Iranian port far enough away from Iraq to be relatively secure from Iraqi air attack during the Iran-Iraq War. This port is the home of Iran's destroyers, frigates, and two Kilo-class submarines. Iran does not conduct extensive patrols in the Gulf of Oman, but does hold occasional exercises there, and is expanding its base at Chah Bahar in the Gulf of Oman. Iran has another large naval base at Bushehr, where it deploys most of its guided missile patrol boats. It has operated hovercraft forces out of the oil port at Kharg Island since the time of the Shah, and has a moderate force at its Western port of Bandar Khomeini, which covers the waters opposite Iraq and the entrance to the Shatt al-Arab. It has small bases at Bandar e-Anzali and Noshahr on the Caspian. Noshahr is used for training Islamic Revolutionary Guards Corps forces in unconventional warfare.77

Opinions differ as to how much of Iran's surface force is fully operational. Iran is clearly able to operate some of its British-made Sa’am-class fast attack craft. According to some reports, it can also operate most of the weapons systems on at least two frigates, one to two corvettes, missile six to ten fast attack craft (FAC), three large patrol boats and 28 coastal patrol boats, and most of its amphibious ships and logistics ships. Many of these ships have effective anti-ship
missiles, although their air defense systems and electronic warfare, and radar capabilities are weak.\textsuperscript{78}

Both the Iranian Navy and the naval branch of the IRGC have a capability for mine warfare. While Iran has only a limited number of specialized mine vessels, it can also use small craft, LSTs, Boghammers, helicopters, and submarines to lay mines. As a result, it is impossible to determine how many ships Iran would employ to plant or lay mines in a given contingency, and some of its mines might be air dropped or laid by commercial vessels, including dhows.

Iran’s amphibious ships theoretically give Iran the capability to deploy about 1,000 troops, and about 30-40 tanks in an amphibious assault, but Iran has not practiced amphibious operations using heavy weapons and has never demonstrated that it has an effective “forced entry” and across-the-beach over-the-shore capability. Iran might use commercial ferries and roll-on-roll off ships if it felt they could survive. Iran has also built up its capability to hide or shelter small ships in facilities on its islands and coastline along the Gulf, and the ability to provide them with defensive cover from anti-air and anti-ship missiles. However, all of Iran’s training to date has focused on amphibious raiding or largely unopposed transit operation and not on operations using heavy weapons or larger combat operations.

Iran has held several amphibious warfare exercises every year since 1992. These included exercises like the Great Khaibar exercise in September, 1995, which are centered on the Straits of Hormuz and Hengam Island, and which involved IRGC naval and marine units and Navy commands operating from Iranian Navy landing ships. They have since included large-scale exercises in every year that has followed.\textsuperscript{79} Iran clearly, however, lacks the air and surface power to move its amphibious forces across the Gulf in the face of significant air/sea defenses, or to support a landing in a defended area.

Iran has also attempted to offset the weakness of its major surface forces by emphasizing unconventional forms of naval warfare. Iran has obtained three Type 877 EKM Kilo-class
submarines from Russia. The Kilo is a relatively modern and quiet submarine which first became operational in 1980. The Iranian Kilos are Type 877EKM export versions. Each Type 877EKM has a teardrop hull coated with anechoic tiles to reduce noise. It has a complement of 52 men and an endurance of 45 days. Its maximum submerged speed is 17 knots and its maximum surface speed is 10 knots.

Each Kilo has six 530 mm torpedo tubes, including two wired guided torpedo tubes. Only one torpedo can be wire-guided at a time. The Kilo can carry a mix of 18 homing and wire guided torpedoes or 24 mines. Russian torpedoes are available with ranges of 15-19 kilometers, speeds of 29-40 knots, and warheads with 100, 205, and 305-kilogram weights. Their guidance systems include active sonar homing, passive homing, wire guidance, and active homing. Some reports indicate that Iran bought over 1,000 modern Soviet mines with the Kilos, and that the mines were equipped with modern magnetic, acoustic, and pressure sensors. Russia is developing both improved torpedoes, and anti-ship missiles for deployment in the 503 mm torpedo tube, but these do not seem to be operational.

Taken as a whole, Iran’s new forms of sea power give it the ability to tacitly and actively threaten the flow of oil through the Gulf, and thereby the economic lifeblood of Iraq and its southern Gulf neighbors. Iran can threaten or attack shipping near the Straits until the US takes decisive action is taken to destroy Iran’s anti-ship missile units, mine warfare capabilities, submarines, and ability to use smaller ships.

Iran can take advantage of the long shipping routes through the Gulf. It has the ability to launch mines, naval or air strikes, and anti-ship missile strikes from positions along the entire length of the Gulf and the Gulf of Oman and to threaten or harass Gulf shipping. While strategists sometimes focus on "closing the Straits" a bottle does not have to be broken at the neck, and low-level mine and unconventional warfare strikes on shipping that are designed to harass and intimidate may allow Iran to achieve its objectives much more safely than escalating to all-out attacks on the flow of oil.
As for power projection, Iran cannot project power by land without crossing Iraq, but it can carry out small amphibious operations. This allows Iran to pose a tacit or active threat to the southern Gulf states, particularly small vulnerable states like Bahrain and the UAE -- although Iran’s capability to conduct such operations is currently limited. Unless the Southern Gulf states and the US to permit Iran to use ferries or commercial ships to conduct unopposed landings or transfers of troops, the Iranian Navy and IRGC are very limited in capability. While they can conduct small landing operations, these operations would be highly vulnerable unless they achieved total surprise. There is no way Iran could sustain them once US naval and air counterattacks began.

The situation is unlikely to change as long as the US maintains a major military presence in the Gulf. If Iran was to strike across the Gulf in force, the Iranian Navy and Naval Guards would need much more effective air-cover, a stronger surface fleet, and better night vision and targeting systems for their small craft, additional amphibious ships and hovercraft. Large scale assaults would also require Iran to use commercial ships with roll-on roll-off capability, and to practice over-the-beach operations using heavy equipment and armor -- training that now is totally lacking. At the same time, Iran can already use small elements of its naval forces to deploy mines and other unconventional warfare forces covertly, to supply arms to radical movements in the southern Gulf, seize undefended islands, and threaten or attack offshore oil operations, ports, and desalinization facilities.

**Weapons of Mass Destruction**

Iran’s ability to threaten shipping and tanker traffic in the Gulf represents the most serious current problem that Iran presents in terms of Gulf security. In the medium to long-term, however, Iran’s efforts to produce biological, chemical and nuclear weapons, and long-range missiles will present a far more serious problem. Iran is developing a Shihab-3 long-range missile with ranges of 1,300 to over 2,000 kilometers with technical help from Russia, China, and North Korea, and possibly much longer range systems.

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Iran continues to develop chemical and biological weapons, and is importing equipment that is probably intended to develop fissionable material and nuclear weapons. These efforts to proliferate are so serious, and so closely linked to Iraq’s efforts to proliferate that they are discussed later in a separate chapter. It is clear, however, that political change in Iran has not affected its efforts to import or try to import, key technologies for biological and nuclear weapons. Although senior U.S. officials stated in June 1999 that Iran was probably 5-10 years away from acquiring nuclear weapons, Iran will probably acquire extremely lethal biological weapons much sooner, and could assemble nuclear weapons much more quickly if it could assemble fissile material from an outside source.

**Implications for US Policy**

Many aspects of the current US policy towards Iran are correct, and many of the remaining flaws are the fault of Congress rather than the Clinton Administration per se. The Executive Orders the President signed to sanction Iran by block trade were more the product of domestic politics, and an effort to deflect Congressional legislation, than deliberate acts of foreign policy. ILSA was inflicted on the President in spite of these Executive Orders, and was certainly not part of the original doctrine of “dual containment.”

These US policies are reflected in the fact that the Clinton Administration and the Secretary of State have already made repeated efforts to recognize that President Khatami’s election means a movement towards Iranian moderation. In March 2000, Secretary of State Madeline Albright apologized for the CIA’s support of the coup that returned the Shah to power in 1953. The US has repeatedly made it clear that it wants to establish an official dialogue with the Iranian government. Members of the Iranian Majlis and US Congress have “accidentally” met, as have Secretary of State Albright and Iranian Foreign Minister Kamal Kharrazi, A public opinion survey in Iran in September 2000 showed that 55% of Iranians would support restoring relations with the US.80

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It is easy to call for more dramatic steps on the part of the US. The Clinton Administration has almost certainly been right, however, in not “embracing” the Khatami government in ways that would give Iran’s hardliners more cause to charge that Khatami was betraying the revolution and was tilting towards the “great Satan.” The Administration is also almost certainly correct to fear that the moderates may not win, and that Iran could still see a far more violent struggle for power. The Iranian revolution may be unexportable, and a spent force in reshaping Islam and the political structure of the Middle East, but its scarcely over in Iran.

Once again, it must be stressed that it is as dangerous to “sanctify” Iran as to “demonize” it. Iran does continue to proliferate – and these actions are discussed in far more detail in Chapter IX. It does continue to oppose the Arab-Israeli peace process and support violent movements that commit acts of terrorism against civilians as well as attack Israel. The US has its own reasons to remember the past, including the Iranian hostage crisis and the tanker war of 1987-1988. There are still major questions about Iran’s role in the November 1995 bombing of the National Guard training center and June 1996 bombing of the Al Khobar barracks in Saudi Arabia.

In recognizing that Iran has legitimate strategic interests in the Gulf, the US must not make the mistake of assuming that Iran’s interests are our interests or those of our allies. Even if the US establishes correct or friendly relations within Iran, this does not mean it should ignore Iran’s actions to increase its influence in the Gulf. Establishing an official dialogue and correct relations will not mean Iran will cease to try to force US military forces out of the Gulf or end the US role in ensuring Gulf security. Restoring commercial relations and allowing US energy investment, does not mean that the US should not try to block major destabilizing conventional arms transfers or halt Iranian proliferation.

What the US does need to do, however, is put an end to the remnants of US policy that did more to demonize Iran than is necessary, and to concentrate on fundamentals in a professional
way. It needs to set the right priorities in dealing with the differences between the US and Iran and strengthen the areas where the US and Iran have common interests.

- The Iran-Libya Sanctions Acts has not simply outlived its usefulness, it never had any. It should be repealed if the prospects for any dramatic breakthrough in US-Iranian relations should suddenly improve, and should be sunsetted into oblivion and allowed to expire if they do not. The US should also revoke the Executive Orders blocking trade and limiting US and Iranian non-official contacts. This does not mean giving Iran a blank check. The US should very carefully monitor how Iran uses foreign investment and make sure that it does not shift funds for military purposes.

- The US position on investment should be to encourage US and foreign investment in any well structured energy investment, swap arrangement, or commercial project in Iran – as long as it is clear that Iran will use the revenues for civil purposes and that the investment is structured in ways where the money clearly goes to its intended purpose. The US should encourage such investment not only to ensure that Iran can be a major exporter, but to ensure that Iran’s economy can meet the needs of its people and serve as a stabilizing force. It should recognize, as it does in the case of China, that when trade and investment are used for civil development, they build up the kind of contacts that act as a powerful moderating and liberalizing force.

- The US should continue to seek an official dialogue with Iran, showing that it is willing to forget the past, but not making concessions. Iran and the US share a history that is a two-edged sword, and Iranians as well as Americans must face this fact. In this case, both sides can best avoid repeating the past by forgetting it. The US does not owe Iran anything other than the obligation to act out of intelligent self-interest. It should, however, do what it can to encourage Iranian pragmatism and moderation and should continue to do so even if Iran’s moderates cannot act on, or even always acknowledge, US efforts.
• *It is equally important that the US remove all unnecessary barriers to unofficial contacts.* The US did not make this mistake in dealing with real enemy powers during most of the Cold War, and it should not make it with Iran.

• *The US should encourage, not discourage, dialogue and trade between its European and Gulf allies and Iran.* There are times when the US needs to admit that its European allies are right and that it is wrong. The same is true of the initiatives begun by Oman and Saudi Arabia, and not followed up by Bahrain and Qatar. This does not mean ignoring the consequences of such dialogue, investment, and trade. The US should take immediate diplomatic action to establish a dialogue of a very different kind with its allies if their actions should lead to any kind of military transfers or sales of threatening dual use technology.

• *The US should continue to support the UAE in seeking a legal and peaceful solution to the dispute over Abu Musa and the Tunbs, and make it clear it will aid the UAE in the face of any Iranian attack. It should also make it clear that it will not support any effort by the UAE to resolve the dispute by force.* The US did not take a stand on this issue when the Shah seized the islands. It has no strategic interest in any escalation of this dispute into violence.

• *The US should carefully monitor Iran’s actions, but it should not treat Iran as a “terrorist nation.”* The fact that Israel is a close ally of the US does not mean that every power that opposes Israel, or supports violent anti-Israel movements, should be treated as major terrorist power. The US should tailor its policy towards Iran to do everything possible to make it recognize Israel as a nation, accept the Arab-Israeli peace process, and halt its efforts to train, finance, and arm anti-Israeli groups. It should recognize that Iran retains all of the forces and infrastructure to support terrorism it built up in the past, and that Iran has a deeply divided regime that could renew its broad support for terrorism with
little or no warning. The US should also recognize, however, that Iran has greatly reduced its support of revolutionary and extremist groups in the Gulf, and the US has no interest in Iran’s actions against violent opposition groups like the MEK or various Kurdish extremists as long as these do not affect innocent civilians.

- At the same time, the US should continue to make it clear that it has not forgotten that Iran might have been involved in the November 1995 bombing of the National Guard training center and June 1996 bombing of the Al Khobar barracks, and earlier Marine Corps barracks and US embassy bombing in Lebanon, and that the US remains to take strong military action if Iranian participation in any future such action should be repeated. What is needed is a combination of strong US intelligence, counterterrorism, and protection efforts with the kind of diplomacy that puts constant pressure on Iran to go further in ending any remaining links to terrorist groups and abolish its training facilities, intelligence, and Revolutionary Guard elements whose primary purpose seems to be related to terrorism. The US has already made many of these adjustments in its policies, and the primary task seems to be to replace the rest of its more noisy anti-terrorism rhetoric with quiet and effective action.

- The US should continue to recognize that the Mujahedin-e-Khalq (MEK) is a terrorist organization under all of its various names, murdered American officers in the past, is financed and supported by Iraq as well as other sources, and use claims about democracy and human rights as a cloak for its own terrorist activities. The MEK not only is a terrorist organization, it is one where the US should tacitly recognize Iran’s right to use violence against it in self-defense.

- The US should continue to fight Iran’s efforts to proliferate, but it must also understand them and set suitable priorities. Neither futile idealism about arms control nor treating all Iranian efforts as if they were equally threatening, is going to solve the problem of Iranian proliferation. As is described in detail in Chapter IX, Iranian proliferation has simply gone

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too far, and Iran lives in too dangerous a neighborhood. It may, however, be possible to persuade Iran to not openly deploy chemical weapons, or weaponize biological weapons. It may be possible to work out some kind of deal where the US tolerates and/or encourages Iran’s development of a nuclear power industry for a clear commitment not to acquire major nuclear weapons facilities and “full” compliance with enhanced IAEA inspections. It may be possible to persuade Iran to halt the development and deployment of boosters and missiles that can hit the US, and to not place weapons of mass destruction on missiles that can target Israel, Turkey, and our Gulf allies. As the US has found with North Korea, proliferation cannot be halted with slogans, moralizing, empty threats, or good intentions. Pragmatic, focused diplomacy may make a difference.

- The US should step up its efforts to block the transfer of dual-use, missile, fissile material and high technology weapons to Iran. The US has already given high priority to blocking Russian, Chinese, European, and other transfers of weapons, dual-use technology, fissile material, and high technology weapons to Iran. It should give this effort even more priority. It should make it clear to Iran that improved relations will not affect this US policy unless Iraq should suddenly acquire access to massive new military supplies and technology. The US should also make it clear that it is none thing to lift economic sanctions and quite another to remove the threat of arms sanctions. Any nation which acts as an aggressive and destabilizing supplier of advanced arms and military technology to Iran should face massive trade and investment penalties.

- If an official dialogue can be established between the US and Iran, the US should be prepared to work with Iran and its Gulf allies in developing confidence building measures and other arrangements that can reduce military tensions in the Gulf. The US should not abandon its allies or ignore the need for continued military containment in the Gulf. It should, however, be prepared for a full military dialogue with Iran and to take mutually beneficial steps to increase Gulf stability and security. These could include classic
confidence – building forces posed by measures like a presence at exercises, declared deployments and military activity, arrangements to reduce the risk of incidents at sea, etc. It should also be made clear to Iran that while US will not leave the Gulf, the size of its military presence will be determined by the collective risk of both Iran and Iraq, and that US willingness to move more of its capabilities over-the-horizon will be as dependent on the Iran as Iraq.

- **At the same time, the US should make it emphatically clear that it will not take sides between Iran and Iraq, and that it is goal towards Iranian-Iraqi relations is that they establish peaceful relations and there be no further Iranian-Iraq conflicts.** A US military tilt towards either power is a recipe for disaster.

- **As has been touched upon earlier, the US has no strategic reason to become involved in any form of a “new great game” that challenges Iran in Central Asia, and should confine itself to ensuring that US companies can compete on a level playing field, and that market forces can develop the region’s energy resources.** There certainly is enough oil in the Caspian and Central Asia to make oil swaps desirable in terms of increasing Iran’s net oil exports and meeting the needs of US firms. There may be enough for multiple pipelines, although the future real-world volume of exports from the Caspian remains highly uncertain, and the real-world economics of pipelines through Iran may not be as desirable as many assert. The US should certainly support Turkey in economic projects, but challenging Russia and Iran in their own backyard, and trying to play a major role in Central Asian and Caspian states that are likely to be unstable for at least a decade, is far more likely to create problems than solutions. The best way that the US can win the “new great game” is not to play it.

 There is another game that the US should not play, and one that reaches far more broadly than its relations with Iran. The US Congress can and should play a major role in US foreign policy by exhorting the Administration to examine key problems and issues, to justify its policies,
and to seek appropriations and Congressional support for new foreign policy initiatives. The Congress should not, however, legislate or mandate foreign policy, attempt to micromanage it, or hold foreign policy and diplomats hostage. Both ILSA and the Iraq Liberation Act are examples of a failed Congressional approach to micromanaging foreign policy by dictating to the executive branch. The partisanship of the last eight years has not been in the national interest in many different ways, but partisanship in the form of repeated interference in the conduct of US foreign policy by -- what may be the weakest Congressional leadership in international relations since the era of isolationism -- simply needs to stop.
1 These figures are taken from estimates in the US State Department data base for World Military Expenditures and Arms Transfers, and from World Bank, World Development Indicators, 2000, Washington, World Bank, pp. 22-24 and 38-44.
3 Reuters, October 2, 2000, 1428.
4 Reuters, October 2, 2000, 1206.
6 Reuters, October 2, 2000, 0234.
7 Office of the Secretary of State, Office of the Coordinator for Counterterrorism, Patterns of Global Terrorism: 1999, Department of State Publication 10687.
11 Associated Press, August 20, 2000, 0737;
12 Reuters, August 20, 2000, 0725.
15 Reuters, August 17, 2000, 0447.
19 This analysis is based largely on the EIA Country report on Iran, February 2000, www.eia.doe.gov/emeu/cabs/iran.html.
21 Reuters, August 22, 2000, 0924.
23 Reuters, October 2, 2000, 0234.

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35 IISS, Military Balance, various editions.

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There are reports that the lighter and smaller formations in the regular army include an Airmobile Forces group created since the Iran-Iraq War, and which includes the 29th Special Forces Division, which was formed in 1993-1994, and the 55th paratroop division. There are also reports that the regular army and IRGC commando forces are loosely integrated into a corps of up to 30,000 men with integrated helicopter lift and air assault capabilities. The airborne and special forces are trained at a facility in Shiraz. These reports are not correct. Note that detailed unit identifications for Iranian forces differ sharply from source to source. It is unclear that such identifications are accurate, and now dated wartime titles and numbers are often published, sometimes confusing brigade numbers with division numbers.


Reports that One of these systems, the Fadjr 3 -- with a range of 40 kilometers -- has seen extensive service with the Hezbollah forces in Lebanon are not correct. *Jane’s Defense Weekly*, April 30, 1997, p. 33.


60 A review of Iranian media reporting and unclassified Iranian military literature does not clarify this situation. The Iranian media issue conflicting reports, and Iran’s military literature does not seem to provide a definitive picture of the IRGC’s military organization and actual command structure. This analysis is based largely on the views of US experts, but there may be more than 15 “brigades.”
62 Interviews with US experts. Division, brigade, regiment, and battalion are Western terms which do not really apply to IRGC formations. Actual unit strengths and organization often have nothing to do with the titles applied in Western reporting.
63 The reader should be aware that much of the information relating to the Quds is highly uncertain and is drawn from Israeli sources. Also, however, see the article from the Jordanian publication Al-Hadath in FBIS-NES-96-108, May 27, 1996, p. 9, and in Al-Sharq Al-Awsat, FBIS-NES-96-110, June 5, 1996, pp. 1, 4; A J Venter, “Iran Still Exporting Terrorism,” Jane’s Intelligence Review, November, 1997, pp. 511-516.


70 Jane’s Sentinel: The Gulf States, “Iran”, various editions.

71 Office of Naval Intelligence, Worldwide Challenges to Naval Strike Warfare, Washington, Department of the Navy, January, 1996, p. 31.


The Economist, September 23, 2000, p. 54.