

Crisis and Opportunity in the Middle East



UK Policy Options towards Iran in 2025

Jay Mens, Marcus Solarz Hendriks, Harry Halem
and Sir John Jenkins KCMG LVO

Foreword by Lord Sedwill GCMG



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Foreword

Lord Sedwill GCMG

The world is more dangerous now than since the end of the Cold War and more complex than ever. Events and their effects cascade at a pace governments struggle to match. There is perhaps no region to which this applies more than south and south-west Asia. Consider the unravelling of the 1979 Iranian Revolution, the Arab Spring, the Taliban's sweeping victory in Afghanistan, Bashar al-Assad's downfall, or the remarkable pace and ambition of socio-economic reform in Saudi Arabia and across the Gulf.

Too often, the signs of imminent change are clear only in retrospect. As we cannot predict events, the task for analysts and policymakers is to prepare against a range of contingencies. As this excellent new Policy Exchange report sets out, one of those contingencies is that the most pivotal country in the Middle East, Iran, might be approaching a turning point. The Iranian regime – a source of great suffering for the Iranian people, and grave security threats to the region, the UK and our partners – has suffered an *annus horribilis*.

The Hamas attack on 7 October 2023 was a tragedy for Israel and punctured the reputations of their formidable intelligence agencies. But just over a year later, it is Iran's network of armed proxies which has been disembowelled and decapitated, and Iran's military capability which has been weakened. Meanwhile, Iran's inflation rate has soared to an 80-year high, pushing essentials further and further beyond the budget of ordinary Iranians. Unhappiness at these economic conditions is made worse by their juxtaposition with Iran's ever-increasing defence expenditure – rising by 200% in last October's budget.

The regime is wounded but remains dangerous. It terrorises our regional partners, destabilises global energy and shipping routes, plans assassinations on British soil, and is complicit in Russia's sacking of both Ukraine and 75 years of European peace. And, despite their setbacks, we might not have seen the worst. The vicious factional struggle for the succession to the ailing Ayatollah Khamenei could entrench the ambitions of the hardest of hardliners, and spill across Iran's borders and into their nuclear programme.

Meanwhile, the incoming US Administration's determination to resume the policy of maximum pressure presents their allies with a dilemma: align or seek an alternative.

This is an opportunity for the UK. When I was National Security Adviser for most of Donald Trump's first Administration, I saw firsthand the value he assigns to the UK-US relationship. Having spent much of my career in the Middle East, I also know how much our Arab allies - and vital economic partners - value UK solidarity against their greatest security threat. Moreover, in a contest between the US and China in the Pacific, securing the region's oil supplies will be vital. The prize of a stable and prosperous Middle East, aligned with the West, is within reach.

It is not for the West, let alone the UK, to determine who rules Iran. That is for the Iranian people. But we can make clear that the right choice will bring benefits just as the wrong one will bring more of the same. We know that, whenever given even the barest of choices, the Iranian people choose the most progressive (or least regressive) candidate available. Their tolerance of the regime's excesses is wearing thin. While aligning with Trump II's maximum pressure against this regime, the UK should also insist that a successor, willing to liberalise at home and behave responsibly abroad, can earn a respectable place in the international community. From crisis emerges opportunity. It is an opportunity for the UK to lead.

Lord Sedwill GCMG, Former Cabinet Secretary and National Security Adviser

Executive Summary

The Iranian regime is in a uniquely vulnerable position. The UK and its partners have a critical opportunity to shape the Middle East's future through a robust policy of 'Maximum Pressure' on the Islamic Republic of Iran – including sanctions on Iranian oil exports, its shadow tanker fleet, and publicising Iranian interference operations in the UK more regularly.

Iran's economic instability is its most significant weakness. Inflation reached 52.3% in 2024, the highest in over 80 years, and the rial's black-market rate has collapsed to over 800,000 IRR per USD. This financial crisis demonstrates the regime's inability to manage its economy under the weight of sanctions and mismanagement, creating acute public dissatisfaction.

Oil and gas revenues, which form over half of Iran's exports, remain Tehran's lifeline. Stricter enforcement of sanctions could eliminate 60-80% of this income, depleting reserves and forcing severe domestic trade-offs. Falling global oil prices, particularly if Russia re-enters markets, would amplify this strain.

Iran's current account surplus, resting precariously on its energy exports, is insufficient to stabilise its broader economic malaise. With daily crude exports of 1.055 million bpd priced at \$70 per barrel, Iran generates around \$27 billion annually, half of which is siphoned off by brokers evading sanctions. Reserves of \$24.3 billion could be depleted within 18 months, or sooner, if oil revenues decline further.

Economic hardships are driving systemic unrest. Protests over fuel prices, minority rights, and widespread corruption are frequent. The bazaars—historically centres of both commerce and dissent—have repeatedly mobilised against government policies, revealing the growing economic pressures on key demographics.

The regime's prioritisation of military spending exacerbates public anger. Nearly half of Iran's budget is allocated to defence, including subsidies for the Islamic Revolutionary Guard Corps (IRGC) and Basij. This approach has diverted resources from essential public services, fuelling dissatisfaction with the government's misplaced priorities.

Despite funnelling so many financial resources into the military apparatus and Iran's proxy network, its capabilities have dramatically collapsed. Senior regime figures have reportedly stated that the regime is unable to execute plans to hit back at Israel due to financial constraints, and the loss of key ally Bashar al-Assad.

The IRGC's growing dominance over Iran's economy mirrors North Korea's Songun (military-first) policy, though Iran's geographic and economic integration with neighbours like Turkey and the Gulf states creates unique vulnerabilities. Reports of dissent within the IRGC, particularly from lower-ranking personnel who face similar hardships as the broader population, highlight cracks in the regime's foundation.

The October 7, 2023, attacks on Israel by Hamas and Palestinian Islamic Jihad—proxies armed and funded by Iran—marked a turning point for the region. Israel's retaliatory strikes, including Operation Days of Repentance in October 2024, have devastated Iran's air defences and left its nuclear programme vulnerable.

Iran's regional influence is eroding. Its proxy networks in Syria, Lebanon, and Iraq are faltering under financial strain and military setbacks. Tehran's inability to regroup in these theatres creates opportunities for the UK and its allies to fill the vacuum, advancing a regional order more aligned with Western interests.

Social media and international coverage amplify Iran's domestic crises, exposing the regime's corruption and inefficiency to a global audience. This exposure can counter Iran's propaganda and support opposition narratives, particularly among minority groups and urban populations.

Iran's reliance on illicit trade, including a shadow tanker fleet for oil exports, presents another pressure point. Coordinated actions by the UK, U.S., and G7 allies to disrupt these networks would further isolate Tehran and reduce its revenue streams.

The UK must pursue a robust approach this year to exploit the regime's weakness – even as it is almost certain to pursue tactical reconciliation to divide the West. Historical precedents, from Akbar-Hashemi Rafsanjani's outreach in the 1990s to Hassan Rouhani's JCPOA negotiations under pressure from Obama's sanctions, illustrate how Iran uses concessions to buy time and reconsolidate.

The UK must resist these overtures, advocating for European unity around a robust stance on the Islamic Republic of Iran. France and Germany, traditionally cautious on Iran, are now more open to assertive policies, providing a window for the UK to lead.

Defections from elite circles, particularly within the Beit-e Rahbari (Office of the Supreme Leader), would symbolically weaken the regime's cohesion. The UK is well-placed to facilitate such defections, leveraging its diplomatic and security apparatus to amplify the internal disruption they cause.

Maximum Pressure is not merely about containment; it is about creating the conditions for meaningful change within Iran. By maintaining sustained economic, political, and diplomatic pressure, the UK will be a key player in the creation of conditions which force a radical change in regime behaviour, or a reckoning.

This moment is unique. The UK has the opportunity to lead in shaping a regional order that counters Iran's destabilising influence, to signal to the Iranian people that we stand with them – while ensuring British and Western interests are secured for decades to come.

Part I: The Stakes

Iran's Annus Horribilis

In July 2023, Policy Exchange published *The Iran Question and British Strategy*, a comprehensive analysis of the UK's approach to the Islamic Republic of Iran (the IRI). It warned that, “absent an Iran policy... the UK risks being caught flat-footed in a major regional crisis”. We likewise warned that this would have dangerous consequences for the UK's security interests, and would be a negative sign for the UK's allies that it was to be absent from playing an active role as a serious strategic player on an issue of massive geopolitical consequence.¹ Such a crisis began, barely two months after the paper was published, with the brutal October 7 2023 attacks on Israel by Hamas and Palestinian Islamic Jihad (PIJ)—two Palestinian factions supported, armed, and funded by the Islamic Republic. That crisis is still ongoing.

This has posed recurrent and sharp dilemmas for UK policymakers. Indeed, the lived experience of the last eighteen months is that the UK has been an active participant in kinetic action on a number of occasions, including attacks on the Houthi militants in response to their assault on shipping; and in joining other nations on two occasions to help defend Israel against largescale Iranian attacks.

Long-term and short-term Iranian actions have been central to the creation of the security crisis, as the out-working of a strategy that combines “forward defence”, attrition, and a threat of ‘regional escalation’ that serves as its deterrence. While the regime's control over events has in many ways been exposed to be less than it had presumed, we are experiencing the consequences of more than a decade of the regime's cultivation of these groups. The ends of that strategy were to shatter a regional status quo that favoured the West and its principal partners. As the conflict evolved, the Axis strategy anticipated drawing Israel into a costly urban fight in Gaza, eroding Israel's will to fight through conflict on other fronts, and turning global opinion against Israel. An additional goal has been to do damage to the security and interests of Israel's allies and broader “Western forces”, of which the US and UK are the principal targets, as well as Western-aligned Gulf states.

After Russia, the Islamic Republic is arguably the second biggest state threat to the UK. The Islamic Republic still views the UK as a key adversary in view of the history of Iran-UK relations. The IRI continues to tout a distorted grievance narrative about Operation Ajax: the 1953 operation to support the Shah of Iran, much of Iran's religious establishment, and

1. Sir John Jenkins et al., *The Iran Question and British Strategy*, Policy Exchange, 17 July 2023, 31, accessed via: <https://policyexchange.org.uk/publication/the-iran-question-and-british-strategy/>.

political class to overthrow the populist Prime Minister Mohammed Mossadegh.² Moreover, as Policy Exchange has laid out, the Iranian regime maintains an extensive intelligence and terrorist-affiliated network in the UK. It has likewise openly conducted external operations on British soil. MI5 Director-General Ken McCallum has publicly identified as a key nefarious actor against British interests and British citizens since 2022, with the security services foiling some 20 plots on British soil in just the past three years.³ Meanwhile, concerns are growing that the UK's air defence systems in the Middle East would provide inadequate protection against ballistic missile attacks from Iranian proxies on British bases.⁴ The need for a coherent strategy was acute even before the eruption of a regional crisis. Today, that is even more-so the case.

Today, the region stands at a new crossroads. Hezbollah's military and political leadership has been decapitated, its extensive infrastructure in southern Lebanon wrecked, and its stockpiles of rockets and missiles have been severely reduced, along with its capacity to regenerate. Much of Hamas's extensive infrastructure under Gaza has been destroyed and its military command in Gaza has been destroyed. Iran's key radar and advanced air defence systems were crippled by Israeli airstrikes, leaving the Iranian nuclear program more vulnerable to a potential Israeli attack. Syria, Iran's key corridor to the Mediterranean, has fallen to Islamist rebels, resulting in a historic rout for Tehran and the loss of billions of dollars in contracts, investments, and military support given over the last decade. Following the death of Supreme Leader Ali Khamenei, there is a significant chance that the IRI enters a period of political crisis.

After a decade and a half of strategic gains, Iran is by far the biggest geopolitical loser of 2024 – with drastic and dramatic shocks to its painstakingly constructed network. The contest for Middle Eastern order is far from over. But in 2025, for better or worse, much of the West's foreign policy approach and the Iranian regime's future is going to be decided.

From Containment to Rollback

The West's historical policy of containment—aimed at curbing Iran's regional influence—has had a significant effect over the course of the last two decades. Sanctions have weakened the Iranian economy. They have put serious restraints on Iran's ability to simultaneously buttress its theocratic governance model, and export expansive Shi'ite Islamism abroad. Likewise, they prevented the IRI from achieving the total takeover of Syria during the Assad years, thanks to a sustained U.S. troop presence. Political pressure helped contain Iranian influence in Iraq, while diplomacy helped sustain a regional coalition comprising the UAE, Saudi Arabia, Bahrain, Jordan, and Israel along with other partners, committed to preventing Iranian dominance.

Today, a potent combination of military vulnerability, economic instability, and internal unrest presents the most significant pathway for the collapse of the Iranian regime since the Iran-Iraq War. However, this

2. Ray Takeyh, *The Last Shah*, (Yale University Press, 2022).

3. Director General Ken McCallum gives latest threat update, *MI5*, 8 October 2024, accessed via: <https://www.mi5.gov.uk/director-general-ken-mccallum-gives-latest-threat-update>

4. Harry Yorke, Britain vulnerable to ballistic missiles as holes in defence revealed, *The Times*, 4 January 2025, accessed via: <https://www.thetimes.com/uk/politics/article/britain-vulnerable-to-ballistic-missiles-as-holes-in-defence-revealed-cr6r3l3j>.

dynamic is not the result of Western intervention but is the result of two strands: the Iranian regime's political, social and economic crises; and the results of the Middle East's local "poly-crisis" that began with the October 7 massacre.

Iran's regional constructs in Syria, Lebanon, and beyond face dismantlement due to a combination of internal weaknesses and external pressures. This shift demands a recalibration of Western policies to shape the evolving dynamics, and prevent a gradual and unopposed Iranian rebuild. In other words, there is an opportunity to move from containment to rollback. Iran's logistical access to its key proxies has collapsed. At the same time, those proxies were part of a strategy of *forward defence*. A common quip in the Middle East has it that the IRI would "fight Israel until the last Arab." Its proxies were designed and developed to absorb the attention and energy of Iran's adversaries so that the IRI itself could at once build up leverage and avoid international pressure. If those logistical lines are returned—a possibility if Syria again falls into chaos, or if Lebanon's ongoing political transition fails—forward defence can be re-established, a fact that explains Iran's support for a ceasefire in Lebanon. If those logistical lines are prevented from returning, and if Iran's outstanding outlets of influence in Yemen and Iraq are seriously damaged, the IRI remains vulnerable. Beyond that, it offers an opportunity to move from the containment of the IRI, to the rollback of its broader regional influence.

Over a four-year horizon, political change is possible. The key event in the Iranian political system is the death of Supreme Leader Ali Khamenei, who is 86 and in poor health. The death of Khamenei, who has ruled Iran since 1989, will be a watershed in the life of the regime. It will likely provoke some sort of power struggle between the most radical elements of the regime and "pragmatists", akin to the fight that followed the death of Josef Stalin in 1953. If Khamenei's death coincides with a sustained crisis of confidence, there will be a unique window for the Iranian people to mount a historic challenge to the regime.

Over the coming year, the goal should be to exacerbate the regime's financial crisis to ensure that it cannot rebuild its regional buffer network and to preclude the regime from attempting to destabilise the ongoing transition of power in Syria, or to disturb a fragile ceasefire in Lebanon. This uniquely coincides with the interests of Turkey, the GCC, Israel and the United States. In the longer term, sustaining Maximum Pressure will serve to create conditions around the time of Iran's leadership transition that are favourable to regime change, should the Iranian people seek to press for it.

The end of the IRI would be a positive development for British interests in the Middle East and globally. At the same time, it is not the role of the United Kingdom to contribute directly to regime change in Tehran. Nevertheless, British agency can and should help shape an environment that is conducive to change happening inside of Iran. The goal is to provide the occasion for the end of the Islamic Republic: not the cause. The evident decay in the ability of the regime to pursue its domestic goals or

to maintain its external presence indicates a significant shift. To that end, “success” means a decline in the regime’s means to maintain control. It is here that there is a significant opportunity to cooperate with the United States to bring about those conditions, and to align the UK approach with that of the incoming U.S. administration from the beginning.

Maximum Pressure sought to induce a broad reduction in regime aggression without catalysing conflict. Although it is unclear whether the Trump administration would offer military support for Israeli attacks on Iranian nuclear sites, it is far less likely to hold Israel back as the Biden administration did. As this window appears, in which a concerted attempt to exploit the IRI’s weak position is likely, the central question facing British policymakers is likely to be: to what extent, and with which policy instruments, does the UK align itself with a more robust U.S. approach? This demands clarity on our regional interests, where they align with the U.S. and other partners, and what capabilities we can bring to joint efforts.

In answering these questions, the UK and its allies must anticipate the emerging regional change, leveraging targeted strategies to secure a stable and desirable order while pre-empting potential challenges posed by hostile actors and movements filling the void left by Iran. The choice the UK is likely to face is whether it wants to participate in rollback or to be a bystander (nestling in behind a less robust European response); and how far it can actively support the actions that could form the key components of a rollback strategy.

The Incoming U.S. Administration’s Views on Iran

Alongside our own national interests, the key reference point for formulating a new UK policy on the IRI is the re-inauguration of Donald J. Trump as the 47th President of the United States.

President Trump’s original “Maximum Pressure” campaign against Iran, implemented during his first term, focused on imposing extensive sanctions designed to curtail Iran’s destabilising activities and diminish its economic resilience. Through measures targeting Iran’s banking, energy, and industrial sectors, the campaign significantly reduced Iran’s oil exports, cutting them from 2.5m barrels per day (bpd) in 2018 to around 300,000 bpd by 2020.⁵ It further limited Tehran’s access to global financial systems, causing its FX reserves to plummet to just \$4BN by 2020 and causing the Iranian rial to undergo substantial devaluation in the official and black markets.⁶ These measures significantly increased the trade-offs involved in Iran’s regional proxy strategy.⁷

What the incoming Second Trump Administration decides, or decides not, to do in the Middle East – particularly on the IRI– will shape the short-to-medium term future of the region. It will also set the parameters for the UK’s own approach. It is clear that there is a significant degree of consensus across the incoming national security establishment – in ideological, bureaucratic and strategic terms – over the desire to revert to a more robust stance on Tehran.

5. Farnaz Fassihi, Six charts that show how hard US sanctions have hit Iran, BBC News, 9 December 2019, accessed via: <https://www.bbc.co.uk/news/world-middle-east-48119109>.
6. Richard Goldberg, How to Bring Back Maximum Pressure on Iran, Foundation for Defense of Democracies, 9 December 2024, accessed via: <https://www.fdd.org/analysis/2024/12/09/how-to-bring-back-maximum-pressure-on-iran/>.
7. “Iran protests: Why is there unrest?”, BBC News, 2 January 2018, accessed via: <https://www.bbc.co.uk/news/world-middle-east-42544618>.

President-elect Donald Trump

Looking towards his second term in the White House, Trump's stated position on Iran is on face value somewhat complex. He previously called the nuclear deal the "worst deal ever negotiated",⁸ but during the campaign trail stated – when asked about the prospect of a new deal – that "we have to make a deal, because the consequences are impossible."⁹ This is confusing, but it is not contradictory. The President-elect's key criticism of the last deal was that it isolated the nuclear profile, and so did not address Iran's other malign activities covered above. A new deal which rectifies these shortcomings could, in theory, be on the table.

Secretary of State-designate Marco Rubio

The Secretary of State-designate's position on the IRI is less circumspect. Last October he called for the "reimposition of a maximum pressure campaign against Iran."¹⁰ He also urged the U.S. to "fully support Israel's right to respond disproportionately" to the threat to its security posed by the IRI and its proxy networks.¹¹ Indeed, he has remarked in the past that, if the U.S. and Israel had coordinated to strike Iran's nuclear facilities, "such an attack would have been successful."¹² Senator Rubio would therefore likely back a return to a more hawkish American policy towards the IRI on economic, diplomatic, and indeed, military lines.

National Security Advisor-designate Mike Waltz

National Security Advisor-designate Mike Waltz holds conventional Republican views on the Middle East: pro-Israel and hostile towards Iran. Last September he castigated the Biden Administration's "one-sided pressure" on Israel to reach a cease-fire in Gaza, and has called on all regional powers – signalling out Qatar – to "do more to crack down on Hamas operations that occur there."¹³ On the military front, he has supported the escalation of Israeli strikes on other critical infrastructure targets in the IRI – including Kharg Island, a key hub of the regime's oil exports – and nuclear facilities at Natanz. He observed that "this might be Israel's last best chance to diminish Iran's [sic] nuclear program and shut down their cash."¹⁴ It is not overly-presumptuous to infer that, as U.S. National Security Advisor, Waltz would propose American diplomatic and logistical support for an Israeli attack on Iran, and may well provide extensive intelligence support to that strike as well.

Secretary of Defense-designate Pete Hegseth

Secretary of Defense-designate Hegseth is likely to focus on a culture of forward-leaning lethality in the Pentagon, one that will include an explicitly hawkish stance towards Iran. It bears noting that Hegseth's remit is not directly to oversee broader strategy, but instead to rebuild American military power. Nevertheless, there is obvious potential for him to support broad, open American involvement in a strike against the Iranian nuclear programme, and some degree of clandestine operations as well, alongside military-technical assistance to Israel. Indeed, he called

8. The White House, The Iran Deal Was Betrayed by Its Own Abysmal Record, 10 May 2018, accessed via: <https://trumpwhitehouse.archives.gov/articles/iran-deal-betrayed-abysmal-record/#:~:text=On%20Tuesday%2C%20President%20Trump%20announced,over%20the%20past%20two%20years>

9. Kierra Frazier, Trump makes a surprising overture to Iran at NYC press conference, *Politico*, 26 September 2024, [link](#).

10. Rubio pledges support for Israel: urges pressure against Iranian regime, Marco Rubio Website, 1 October 2024, [link](#).

11. *Ibid*.

12. Jeffrey Goldberg, How a President Rubio Would Undo the Iran Deal, *The Atlantic*, 6 August 2015, [link](#).

13. Marc Rod, Trump picks Iran critic hawkish Israel supporter Mike Waltz as national security advisor, *Jewish Insider*, 11 November, [link](#).

14. Twitter, @michaelwaltz, 26 October 2024, [link](#).

for the U.S. to bomb sites in the IRI housing weapons after Tehran fired ballistic missiles at American bases in Iraq in 2020.¹⁵

CIA Director-designate John Ratcliffe

CIA Director-designate Ratcliffe brings significant experiences in the intelligence community to the role, and during his tenure as Trump's Director of National Intelligence, was consistently aggressive towards Iran. He lacks direct intelligence operational experience, and principally worked as a bureaucrat and oversight manager during the First Trump administration. But a Ratcliffe-led CIA will likely have significant risk appetite for either clandestine operations or support for Israeli action; he has previously criticised the Biden Administration for choosing to divert critical intelligence assets away from "terrorist groups like Hamas – ultimately leading to the failure to anticipate or disrupt the events of October 7."¹⁶

Secretary of the Treasury-designate Scott Bessent

As Secretary of the Treasury, Scott Bessent would oversee the American sanctions regime, a central component of a second Maximum Pressure campaign. In an interview at the end of last year, Bessent stated his intent to "make Iran broke again", auguring a return to full-scale sanctions against the regime.¹⁷ As we shall see below, this would come at a moment when the Iranian economy is significantly weaker than it was at the beginning of the first Trump Administration.

Special Envoy to the Middle East-designate Steve Witkoff

The next U.S. Special Envoy to the Middle East has vocally supported the previous Trump Administration's Iran policy. Witkoff has written that "with President Trump, the Middle East experienced historic levels of peace and stability. Strength prevents wars. Iran's money was cut off which prevented their funding of global terror."¹⁸ This can be interpreted as an endorsement of a return to Maximum Pressure.

Deputy Special Envoy to the Middle East-designate Morgan Ortagus

Witkoff's deputy, Morgan Ortagus, is of similar mind on Iran. She has recently stated that Israel has exposed the weakness of the regime.¹⁹ Her views on sanctions are clear, having co-authored a piece in 2023 titled "The West rewarded Iranian terrorism by dropping UN sanctions."²⁰ In this piece she calls for "a president and national security cabinet who can articulate clear red lines, re-establish deterrence, back rhetoric with decisive action, and stand firm against international bullies. The world needs assurances that the U.S. is willing and able to back its words with force when necessary." This can fairly be interpreted as an endorsement for the return of Maximum Pressure and, when necessary, military operations to enforce limits on the regime's regional and global aggression.

15. Web Desk, Who is Pete Hegseth, *The Week*, 13 November 2024, [link](#).

16. Ben Samuels, Trump Names John Ratcliffe, Skeptic of Biden's Israel Strategy and Vocal Iran Critic as CIA Director, *Haaretz*, 13 November 2024, [link](#).

17. Fox Business, 'MAKE IRAN BROKE AGAIN': Treasury secretary contender defends Trump's economic vision, *Youtube*, 16 November 2024, accessed via: <https://www.youtube.com/watch?app=desktop&v=lht-NJFswafE>

18. @SteveWitkoff, *Twitter*, 25 July 2024, accessed via: <https://x.com/SteveWitkoff/status/1816588093178155186>.

19. NewsNation, Israel has exposed Iran for their weak regime: Morgan Ortagus, *Youtube*, 10 December 2024, accessed via: <https://www.youtube.com/watch?v=GFR-p3Ei8DA>

20. Morgan Ortagus and Gabriel Noronha, The West rewarded Iranian terrorism by dropping UN sanctions, *The Hill*, 20 October 2023, accessed via: <https://thehill.com/opinion/4265145-the-west-rewarded-iranian-terrorism-by-dropping-un-sanctions/>.

Our 2023 Paper

Months before the current crisis began, Policy Exchange argued that there was no longer a Middle East order or status quo to preserve. Rather, there was a fluid balance of forces that had to be managed through the coordinated use of all implements of national power.²¹ This is as true today as in the summer of 2023. But developments since October 2023 have radically shifted the balance of forces – generating opportunities for the UK and its allies to help reshape positively the regional order with friends and partners within the region itself. But the present scenario also carries risks, namely of damage to British interests, and of appearing increasingly geopolitically irrelevant to partners if we have no clear strategic goals of our own.

As Policy Exchange’s 2023 paper noted, British interests in the Middle East are enduring. Keir Starmer has recently visited the Gulf, just as Rishi Sunak did before him. The region is home to more than 350,000 British citizens. The Middle East remains a territorial bridge between Europe and Asia, a provider of energy and massive foreign direct investment, and a market for services provision. The United Kingdom Naval Support Facility (UKNSF) in Bahrain serves as a permanent base for the Royal Navy, cementing Britain’s position in two of the most strategically sensitive waterways in the world—the Persian Gulf and the Indian Ocean. Likewise, the United Kingdom Joint Logistics Support Base (UKJLSB) in Oman and Al-Minhad Air Base in the UAE are integral parts of a broader network that ensures the UK’s ability to facilitate the free flow of energy and commerce while deterring aggression.

This security relationship has led to investments in, and sales by, our defence industrial sector (for example, in developing the new, high-performance radar for the Typhoon fighter, which is now flown by Saudi, Omani and Qatari air forces.) Traditionally our most useful overseas territorial base, the Sovereign Base Area on Cyprus, is in range of Iranian proxies in the Eastern Mediterranean. Economic ties between the UK and the Middle East are profound and reciprocal. The Gulf states are major investors in the UK. The UK is a vital provider of professional services across the region. Arms exports are equally key. Defending these interests requires a clear-eyed view of the threat the IRI still presents.

The Enduring Threat

Despite its *annus horribilis*, the IRI retains leverage over the Middle East’s major maritime chokepoints: the Persian Gulf, the Red Sea and the Indian Ocean.²² The IRI continues to pursue a policy of global disruption, facilitated through carefully constructed relationships with other hostile regimes and often criminal non-state actors, as well as influence campaigns designed to raise the costs of any international action against it. This demands a coherent response from the UK and its allies. While its means have diminished, Iran’s long-range ambitions—the dissolution of the State of Israel, the destruction of the U.S.-led security architecture in the region, and the subordination of the Gulf, Mesopotamia, and the Levant—remain

21. The Iran Question, *Policy Exchange*, 10.

22. Yemen: Houthi Attacks Placing Pressure on International Trade, *Defense Intelligence Agency USA*, March 2024, [link](#).

the same. Despite cyclical lulls in ideological fervour, the basic premises of Iran's theocratic system have reproduced this tendency since 1979. This demands a much greater focus on the whole of Iran's foreign policy.

For many years, including during talks to establish the Joint Comprehensive Plan of Action (JCPOA) between the IRI and the P-5, there was a tension between a predominant focus on the Iranian nuclear programme and the need to tackle its broader activity to destabilise the Middle East. The first Trump administration's repudiation of the JCPOA was partly because of the fact it did not deal with the other elements of Iran's nefarious regional activities. As the past year has confirmed, the hypothetical danger of a nuclear IRI is not at all a reason to ignore the danger of Iran's current foreign policy. This pertains not only to its proxy strategy but also to its clandestine actions in the Middle East, in the West, and globally.

Two things have changed in the last year that make it necessary to these priorities. First, the once feared scenario—one in which the IRI unleashed all its proxies at once, including against the remnants of coalition forces in Iraq—has transpired. Ironically, the IRI has been the biggest loser from the materialisation of its latent strength.

Second, just as the IRI has taken these huge setbacks, the prospect of it getting closer towards the other nightmare scenario—a fast track to nuclear weapons—has increased, both in terms of its technical proficiency but also its growing incentive to take risks.

British Policy Since 2023

Before 7 October, the UK's Middle East strategy was overly narrow, focused primarily on long-standing and niche issues such as advancing the two-state solution or addressing specific, localised conflicts like Yemen or Syria. These efforts, while important, often operated within the constraints of established multilateral frameworks, such as the UK's role as a "penholder" at the UN, which emphasised procedural leadership on issues like conflict resolution and conflict management. This approach lacked the broader geopolitical perspective required to engage with the region's rapidly evolving realities: the Abraham Accords, the expanding influence of China and Russia; contingency planning for crises; and of course, how to contain Iran's malign regional ambitions. What was missing was a cohesive, forward-looking approach that integrated these dynamics into a strategy aligned with UK national interests.

From the point of escalation in October, the UK had less direct involvement regarding Hezbollah compared to other international players. It did, however, maintain a clear stance through consistent ministerial statements, including those from the Prime Minister and Keir Starmer. These statements underscored a firm position on Hezbollah's destabilising activities—even as Foreign Secretary David Lammy occasionally issued general calls for restraint. The UK's support for enforcing the long-standing UN resolution on disarming Hezbollah was evident through both diplomatic channels and behind-the-scenes intelligence cooperation,

particularly in discussions with regional allies. Additionally, the UK's military presence and regular high-level visits to key regional partners—particularly Israel—underscore its commitment to regional security. These conversations included intelligence-sharing and plans to monitor compliance with UN mandates, efforts that ultimately contributed to the momentum behind Israel's eventual enforcement of the resolution through military means. While not always visible, the UK's role was less symbolic than it might initially appear, reflecting a pragmatic approach shaped by its national interests and relationships in the region.

At various points during recent Conservative government, the UK adopted a more robust position on the IRI than its partners in the Quad (US, UK, France, and Germany). While the UK's stance on Iranian destabilisation and nuclear ambitions often exceeded that of France and Germany in clarity and resolve, its ability to shift the dial independently was inevitably constrained—largely due to the outsized influence of the United States. Despite this, the UK largely aligned itself with Washington's policy, even as the Biden administration pursued a strategy on the IRI that many allied observers deemed to be inconsistent or incoherent, often leaving its allies navigating uncertain waters.

What makes the current moment especially distinct, therefore, is the promise of a more robust US strategy toward the region and particularly towards Iran. To make these decisions effectively, the UK will need a clear articulation of its own strategic objectives and the capacity to plan for a variety of potential scenarios in a rapidly shifting regional landscape. Critically, if the UK aspires to shape outcomes rather than passively respond to them, it must demonstrate that it has “skin in the game.” Without this, the gravitational pull of a cautious, consensus-driven European position—often characterised by an aversion to decisive action—will be difficult to resist. A more proactive approach, balancing alignment with US objectives and leveraging Britain's distinct levers of influence in the region, is essential.

Part II: A Historic Opportunity

Iran's current situation presents the UK and its partners with a historic opportunity. There must be a clear focus on the pressing strategic questions that will inevitably shape the region in 2025. These are the kinds of debates that Tehran itself is engaging with, and the UK must recognise that its own relevance hinges on its ability to meaningfully shape these discussions, rather than simply reacting to them or otherwise managing geostrategic irrelevance at a time of dramatic historical change. Similar circumstances emerged in 1991, following the Gulf War and the destruction of the Iraqi military, which left the IRI grappling with the dual challenge of rebuilding after the Iran-Iraq War (1980-1988) and navigating a world dominated by American hyperpower and a unipolar international system. A comparable situation arose in 2003, when the U.S. invasion of Iraq brought American forces to Iran's western frontier, having already taken control over much of Afghanistan in 2001. This prompted Tehran to suspend Operation Amad, its military nuclear programme, which was later exposed in 2018 by a Mossad operation. The current situation is a similar juncture where not only the United States, but also Israel, are in a position to reshape the region's geopolitical standing.

Such a reversal comes at a particularly vulnerable point for the Iranian regime as it nears a period of succession. The contenders for succession are highly unclear; many of them are above the age of 65 and have low profiles, the key exception being Khamenei's son Mojtaba, who is something of an eminence grise in the office of his father. None of these options bode well for the Islamic Republic which is increasingly young: more than two-thirds of Iranians have no recollection of the Islamic Revolution and low election turnout—the regime's preferred barometer of political vitality—implies growing disinterest in, if not enthusiasm for, the country's political system.

This momentum is nothing short of a unique strategic opportunity to intensify Iran's isolation, fostering a regional order more favourable to British interests while mitigating the destabilising influence Tehran has wielded for decades.

Iran's Vulnerabilities: Opportunities for Maximum Pressure

A window is about to emerge in which there will be a concerted effort to exploit Iran's vulnerabilities and apply maximum pressure on the regime. The question for UK policymakers – and this should be considered against the backdrop of the direct and growing threat the IRI poses to the UK – is the extent to which it wants to shape this outcome, and in what areas it might want to contribute.

Iran's economic fragility, heavy reliance on oil and gas revenues, and overextension in militarisation have left it increasingly exposed to strategic leverage. The material impact of these losses may have been testified by senior IRGC commanders, who reportedly noted that the regime has been unable to retaliate against Israel's October air strikes – in a counterstroke codenamed 'True Promise 3', because of financial constraints and the defenestration of former ally, al-Assad.²³

These weaknesses, compounded by internal dissent and shifting geopolitical realities, provide an opening for decisive action. By targeting Iran's structural dependencies and exploiting its economic and strategic constraints, there is significant potential to amplify existing pressures and force concessions that could reshape the regional balance of power. In other words, "maximum pressure" will be the engine of a policy of rollback, designed to unravel the IRI's regional influence and fundamentally change its position in the Middle East's security architecture.

The key priority for the UK is disrupting Iran's malign activities and imminent threats to the UK, alongside establishing independent deterrence against Iranian attempts to harm UK security – including at the domestic level. The greater effort to pressure the regime and redesign the regional security order will fall to the United States, which has the greatest ability and convening power to effect either an unlikely comprehensive deal with Tehran or to force substantive political change within the regime. Any of these outcomes would constitute a significant policy success for the UK and its allies, reinforcing regional stability, safeguarding British interests, and weakening a core component of the 'New Axis'²⁴.

One of the more remarkable aspects of the Maximum Pressure campaign is that it was undertaken with relatively little support from American partners, particularly in Europe. The Instrument in Support of Trade Exchanges (INSTEX), a European special purpose vehicle to enable trade with Iran, was created in 2019 with ten European stakeholders who protested the Maximum Pressure campaign and claimed that the Joint Comprehensive Plan of Action (JCPOA) was still legally binding. Its eventual dissolution—ironically due to Iranian obstructionism²⁵—serves as a reminder of the importance of cohesive Western action. Iran's strategy to exploit divisions among Western allies, often by appealing to business interests, is less effective now, particularly with INSTEX no longer in operation. Nevertheless, a concerted approach with American support can significantly increase the potency of such a policy. Today, there is an

23. Loss of Syria and financial stress preclude Iranian strike on Israel – general says, *Iran International*, 9 January 2024, accessed via: <https://www.iranintl.com/en/202501095184>.

24. China, Russia, Iran, North Korea and fellow-travellers such as Venezuela.

25. "Iran rejects Biden's terms for reviving nuclear deal," BBC News, 2 December 2020, accessed via: <https://www.bbc.co.uk/news/world-middle-east-55177586>.

opportunity to put the regime under unprecedented external and internal strain, which can present an opening to demand significant concessions – or to precipitate a historic internal transformation.

The key indicators of regime weakness are sustained, large-scale protests—particularly in Iran’s major urban centres—and defections from key political and security institutions. It bears noting that the current situation has, per documents leaked by the Iranian opposition, created considerable concern about the economic drivers of defection from parliament and other government bodies.²⁶ Likewise, the main practical effect should be Iranian retrenchment, manifested in Iran’s continued inability to regroup in Lebanon and Syria, and the dilution of its political sway and influence in Iraq. Pressure on Iran’s finances is key to achieving all of these outcomes.

Economic Fragility and Inflation

The IRI is grappling with severe economic challenges, with inflation recently hitting 52.3% year-on-year during the 2023-2024 period, marking the highest level in over 80 years.²⁷ By comparison, inflation peaked at 49.7% in 1995, stood at 25.4% in 2008, and reached 39.9% in 2019 during renewed sanctions.²⁸ The disparity between the official exchange rate of 42,250 IRR per USD and the black-market rate, which exceeds 800,000 Iranian rial per USD as of this writing, highlights the regime’s inability to stabilise the economy.²⁹ Without external intervention, the rial’s trajectory towards 1 million rial per USD is plausible within months, exacerbating living costs and shortages of essential goods, as vividly described on social media and elsewhere.³⁰ The expanded and opaque defence budget of the Islamic Revolutionary Guard Corps (IRGC) and Basij likely underpins subsidies for their active members, further straining public finances.³¹

The most important aspect of Maximum Pressure is that, notwithstanding the real impact that sanctions have on the regime’s ability to pursue its foreign policy, the failure of the IRI’s economy demonstrates to ordinary Iranians that the regime has no viable plan to make it better. These facts determine perception, particularly when paired with the pervasive effect of corruption inside of the regime. There is no more potent vignette of the destabilising impact of perceived corruption, and a stratified Iranian society created by its authoritarian political economic model, than the regular anger levelled at the regime-connected ‘Rich Kids of Tehran’, or Aghazadeh (‘noble-born’), during economic strife.³²

Dependence on Oil and Gas

Oil and gas form the backbone of Iran’s economy, accounting for over half of export revenues.³³ Tehran’s claims of a current account surplus rest on these exports, which provide critical foreign currency.³⁴ Nevertheless, the surplus itself is fragile and vulnerable to comprehensive sanctions. Stricter enforcement could theoretically eliminate 60-80% of revenue streams, rapidly depleting foreign reserves and triggering a broader fiscal crisis. A global oil price decline to below \$70 per barrel—particularly

26. Amir Taghati, Leaked Files Show Iran’s Regime Fears Defection Among MPs, *NCRI*, 17 February 2024, accessed via: <https://www.ncr-iran.org/en/news/exclusive-report/leaked-files-show-irans-regime-fears-defection-among-mps/>.
27. Inflation rate - average consumer prices: Iran, *IMF*, accessed via: <https://www.imf.org/external/datamapper/PCPIPCH@WEQ/IRN?zoom=IRN&highlight=IRN>
28. *Ibid.*
29. US dollar to Iranian Rials today, *Alanchand*, accessed via: <https://alanchand.com/en/currencies-price/usd-hav>
30. Bita Ghaffari, Iranians struggle to access crucial medicines as sanctions hit supplies, *FT*, 21 August 2024, accessed via: <https://www.ft.com/content/012e9dbf-845f-4745-959e-9ac0a8ed8316>.
31. The Huge Share of Paramilitary Basij Force in Iran’s Budget, *Iran Wire*, 9 May 2023, accessed via: <https://iranwire.com/en/news/116351-the-huge-share-of-paramilitary-basij-force-in-irans-budget/>.
32. Ben Brimelow, The extravagant lives of the ‘Rich Kids of Tehran’ are fuelling Iran’s protests - take a look, *The Independent*, 7 January 2018, accessed via: <https://www.independent.co.uk/news/world/middle-east/rich-kids-of-tehran-iran-protests-islamic-revolution-hassan-rouhani-ali-khamenei-middle-east-a8146536.html>.
33. Iran, *OECD*, accessed via: <https://oec.world/en/profile/country/ir>
34. IMF revises up its 2024 economic growth forecast for Iran, *Mehr News Agency*, 25 October 2024, accessed via: <https://en.mehrnews.com/news/223501/IMF-revises-up-its-2024-economic-growth-forecast-for-iran>.

feasible if Russia legally returns to markets—would further weaken Iran’s position.³⁵ This dependence represents a strategic vulnerability that sanctions can effectively exploit. Iran’s current account surplus, estimated at 3.4% of GDP in 2023 and projected to remain at 3.6% in 2024, is precariously dependent on hydrocarbon exports, which generate over 40% of total export revenues. This surplus does little to offset the broader economic malaise, especially as sanctions increasingly target oil and gas revenue streams. The fiscal breakeven oil price, which the IMF estimated was \$121/barrel in 2024, further underscores the fragility of Iran’s economic position in the face of fluctuating global oil markets.³⁶ In addition, sanctions already restrict Iran’s ability to export oil, often forcing it to sell at discounted rates—reportedly \$5-6 below global market prices.³⁷ All this leaves the IRI extraordinarily exposed to two opposing scenarios – a comprehensive sanctions regime starving its economy, or a decline in global oil prices – both of which would rapidly undermine this critical revenue source, exacerbating fiscal instability and pushing the regime closer to economic collapse.

It should be noted that the IRI exports approximately 1.7m bpd. Many reports suggesting the return of maximum pressure could realistically be reduced to around 1m bpd, removing between 500,000 and 600,000 barrels per day from the market despite a sophisticated sanctions evasion network.³⁸ OPEC has around 5m bpd of spare production capacity, which, excluding Iran, Russia, and Libya, is sufficient to absorb the loss of Iranian oil exports. Saudi Arabia and the UAE, in particular, have the capacity and have shown the ability to ramp up production quickly in response to supply disruptions. In particular, Saudi Arabia is thought to have more than 2.5m bpd in spare capacity while the UAE has around 1m bpd. Iraq has at least 300,000 bpd of spare capacity while Kuwait has more than 200,000 bpd. In other words, the loss of Iranian oil could easily be offset by major market players; this would likely be a welcome move due to the market currently struggling due to excessive supply and weaker Chinese demand.³⁹ Should the IRI attempt to undermine moves to fill the gap in the market, either by pushing its proxies in Yemen and Iraq to attack Saudi Arabia and the UAE, it would have the effect of deepening its foreign policy crisis by straining its normalisation agreements with Riyadh and Abu Dhabi – once again consolidating the united front against it while giving the West an opportunity to support the Gulf in a renewed struggle with the Houthis.

Historical precedent underscores the political perils of collapsing oil prices for Iran. During the recent COVID-19 pandemic in 2020, crude prices dropped below \$20 per barrel, forcing the IRI to cut subsidies and rely on domestic borrowing, which in turn fuelled inflation and public discontent.⁴⁰ In 2024, with oil prices hovering around \$70–\$80 per barrel, the IRI is already facing economic problems. A conservative estimate of Maximum Pressure’s effects on exports—500,000 bpd—would result in losses of around \$850 million a month, or more than \$10 billion a year (assuming an average of \$72/b). This is equivalent

35. Oil Price, accessed via: <https://oilprice.com/>

36. Middle East and Central Asia – Statistical Appendix, IMF, 10.

37. Charles Kennedy, Iran’s Oil Supply to China Most Expensive in Five Years As Loadings Fall, *OilPrice.com*, 5 November 2024, accessed via: <https://oilprice.com/Latest-Energy-News/World-News/Irans-Oil-Supply-to-China-Most-Expensive-in-Five-Years-As-Loadings-Fall>.

38. Jeffrey Sonnenfeld, Dennis Ross, Barry McCaffrey, Adam Boehler, and Steven Tian, It’s Time to Tighten Enforcement of Iran Oil Sanctions, *TIME*, 1 October 2024, accessed via: <https://time.com/7027530/israel-missile-attack-iran-oil-sanctions/>.

39. Georgina McCartney, Oil dips on oversupply concerns, heads for weekly loss, Reuters, 15 November 2024, accessed via: <https://www.reuters.com/business/energy/oil-dips-oversupply-concerns-heads-weekly-loss-2024-11-15/>.

40. Esfandiyar Batmanghelidj, Iran: The double jeopardy of sanctions and COVID-19, Brookings Institution, 23 March 2020, accessed via: <https://www.brookings.edu/articles/iran-the-double-jeopardy-of-sanctions-and-covid-19/>.

to 2.7% of Iran's current GDP and could push the budget deficit above 10% of GDP. Iran's non-oil exports reached \$29.5 billion in the first half of its last fiscal year. These exports are heavily reliant on neighbouring trade partners and limited currency flexibility, which sanctions could further disrupt. Capital flight compounds this issue, as does the high cost of imports; imports reached \$32.5 billion in the first six months of last year, suggesting full-year imports could exceed \$65 billion. A \$55 billion allocation by the Central Bank for key ministries shows heavy reliance on subsidised currency, further depleting reserves. The first six months of 2024 saw a \$7 billion deficit, with last year's deficit reaching \$17 billion. With reduced oil revenues, this deficit could worsen further.

Should prices drop into the range of \$60-70 per barrel, the economic strain could become insurmountable, triggering accelerated rial devaluation and heightened social unrest. In 2024, the Majlis estimated daily crude exports of 1.055 million bpd at an average price of \$70 per barrel, which would generate annual revenues of around \$27 billion. However, due to sanctions evasion, approximately half of this revenue—about \$13.5 billion—is thought to be diverted to brokers and affiliated entities.⁴¹ If this is indeed the case, with its current budget of \$30 billion annually, Iran's reserves of \$24.3 billion could be entirely depleted within a year and a half if no additional foreign currency sources are secured. If oil sales decline by more than 500,000 bpd due to additional sanctions, the timeline could be even shorter. The regime would face a difficult choice: a race to the bottom or expansive cuts to subsidies paired with delays to infrastructure projects, stretching reserves at the cost of heightened domestic unrest.

It bears noting that a fall in oil prices below \$60 per barrel would also affect other producers, particularly Saudi Arabia, which can and would likely act to stabilise prices before reaching that threshold.⁴² However, Iran's outsized reliance on discounted oil sales, economic isolation, and far smaller asset buffer mean that it would suffer disproportionately, making it a significant opportunity for targeted economic pressure.

Towards North Korea?

Iran's rapidly expanding military budget reflects a regime increasingly prioritising defence and security spending over public welfare, drawing comparisons to North Korea's militarised economy. Recent estimates suggest that nearly 50% of Iran's national budget is allocated to military and security forces, with the Islamic Revolutionary Guard Corps (IRGC) receiving a disproportionately large share.⁴³ This has included a 200% increase in military spending in the latest budget cycle, with a significant portion directed towards the IRGC and its affiliated Basij militia.⁴⁴ This bloated defence budget has come at the expense of vital social services, exacerbating public discontent and economic hardship.

The IRGC's financial empire, which spans oil revenues, construction projects, and smuggling operations, provides critical funding for its expansive activities. Over the course of Khamenei's rule, the IRGC has come to dominate the Iranian state, in particular controlling Iran's *bonyad* system

41. Jubin Katiraie, Half of Iran's Oil Revenue Goes to Brokers and Middlemen, *Iran Focus*, 26 October 2024, accessed via: <https://iranfocus.com/economy/52414-half-of-irans-oil-revenue-goes-to-brokers-and-middlemen/>

42. Saudi fiscal breakeven oil prices seen skewed by significant PIF spending, S&P Global Commodity Insights, 7 September 2023, accessed via: <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/crude-oil/090723-saudi-fiscal-breakeven-oil-prices-seen-skewed-by-significant-pif-spending>.

43. Bitza Ghaffari and Najmeh Bozorgmehr, Iran's defence budget set to soar as regional tensions rise, *FT*, 29 October 2024, accessed via: <https://www.ft.com/content/851ffe91-1a60-4b57-a47b-857ca8415a80>

44. Dalga Khatinoglu, Iran to triple military spending as currency tanks, *Iran International*, 29 October 2024, accessed via: <https://www.iranintl.com/en/202410290260>.

of pseudo-charities that interface with the black market,⁴⁵ monopolising significant sectors of the economy, retaining an influential presence in the legislative body, and having responsibility for critical national security portfolios like the nuclear and ballistic missile programmes.⁴⁶ Moreover, reliance on such opaque sources of revenue makes this funding stream vulnerable to sanctions targeting the IRGC's economic network. Even more, as domestic unrest grows and inflation erodes purchasing power, the government's ability to subsidise goods for IRGC members and their families is increasingly strained.⁴⁷

As the post-Khamenei succession process draws nearer, the IRGC may well more aggressively exclude other elements of the Iranian state from the decision-making process. Reports suggest that internal dissent within the ranks of the IRGC has begun to surface, as lower-level personnel face the same economic hardships as the broader population.⁴⁸

Historically, regimes that allocate excessive resources to their militaries during times of economic crisis often face legitimacy crises. Iran's case is no different. Akin to North Korea's Song-un (military first) system, which centralises military power and state control over key resources, Iran's militarisation strategy has entrenched the Islamic Revolutionary Guard Corps (IRGC) as the dominant force across its economy, governance, and foreign policy. This approach has prioritised military growth over economic development, diverting resources away from civilian needs and exacerbating public hardship. Iran's position is distinct in that its geographic and economic integration with key regional players, such as Turkey and the Gulf states, offers potential pathways for engagement that North Korea lacks. Even so, the expansion of the IRGC's influence and the bloating of the defence budget reflect a similar erosion of institutional balance, with the regime increasingly dependent on military elites to maintain control.

This militarisation strategy, while intended to safeguard the Iranian regime, has rendered it deeply vulnerable to sustained economic and diplomatic isolation. Targeted sanctions that disrupt the IRGC's revenue streams, coupled with international efforts to exploit dissatisfaction with IRGC corruption and overspending, can magnify these vulnerabilities. Iran's openness compared to North Korea may heighten these risks, as internal dissent and external pressures intersect in ways that Pyongyang can often suppress.⁴⁹

45. "Bonyad Mostazafan", *Iran Watch*, accessed via: <https://www.iranwatch.org/iranian-entities/bonyad-mostazafan>.

46. Michael Elleman, "Iran's Ballistic Missile Program," *United States Institute of Peace*, 12 April 2024, accessed via: <https://iranprimer.usip.org/resource/irans-ballistic-missile-program>.

47. Maryam Sinaiee, "Leaked Document Reveals Loss Of Loyalty, Insubordination In IRGC," *Iran International*, 20 March 2023, accessed via: <https://www.iranintl.com/en/202303192652>.

48. *Ibid.*

49. 2023 Country Reports on Human Rights Practices: North Korea, U.S. State Department, 2023, accessed via: <https://www.state.gov/wp-content/uploads/2024/03/528267-KOREA-DEM-REP-2023-HUMAN-RIGHTS-REPORT.pdf>

50. Ahmad Ashraf, "Bazaar-Mosque Alliance: The Social Basis of Revolts and Revolutions," *International Journal of Politics, Culture, and Society*, vol. 1, no. 4, 1988, pp. 538-567.

Bazaars: A Barometer of Discontent

Iran's bazaars have historically played a critical role in protest movements, acting as a barometer of public discontent, particularly during economic crises.

Some of the most important episodes in modern Iranian history, such as the Tobacco Protests of 1891-92, the Constitutional Revolution of 1905-1911, and the 1979 Islamic Revolution, were deeply connected to bazaar mobilisation.⁵⁰ These moments lend the bazaars particular

symbolic power in Iran's political landscape. In 2010, protests emerged against VAT reforms, accompanied by occasional strikes during the post-2009 Green Movement. In 2012, strikes over sanctions and mismanagement further highlighted the bazaaris' capacity to mobilise when their economic stability was threatened. The 2018 protests, sparked by a currency collapse, continued this trend of economic grievances driving dissent. In November 2022, merchants in Tehran's Grand Bazaar and other cities closed their shops in protest during a nationwide strike marking the anniversary of the 2019 fuel protests, which were met with a violent crackdown. These protests were further fuelled by the death of Mahsa Amini in police custody, leading to widespread demonstrations against government policies, corruption, and economic mismanagement. In December 2022, protests in the bazaar focused on poverty and the rising cost of living, with many shops in key trading areas closing in solidarity.

This consistent pattern highlights the bazaars' enduring influence as centres of both commerce and political expression, making them a key barometer of the regime's ability to maintain public confidence.

2010: Protests against VAT reforms erupted when Ahmadinejad's government introduced measures that increased financial pressure on merchants. Widespread strikes and closures in Tehran's Grand Bazaar led to the temporary suspension of VAT collection.

2012: Bazaar merchants staged strikes in protest of the rial's sharp devaluation and sanctions-related economic mismanagement. These demonstrations highlighted the bazaars' capacity to mobilise against economic instability and attracted attention across the country.

2018: Currency collapse under renewed sanctions spurred widespread protests in the Grand Bazaar. Merchants voiced frustrations over economic mismanagement and inflation, underscoring the bazaars' pivotal role in amplifying public discontent.

2019: During the anniversary of the 2019 fuel protests, shops in Tehran's bazaar closed in solidarity, reflecting anger over inflation and corruption. The protests escalated following the death of Mahsa Amini in police custody.

2022: November and December saw major strikes in the Grand Bazaar, with merchants shutting down shops to protest poverty, rising living costs, and economic mismanagement. These demonstrations were part of a broader wave of unrest that exposed cracks in the regime's ability to manage public grievances.

2024: In November, business owners and employees in Tehran's bazaar

protested against rising inflation and the foreign exchange crisis. The initial unrest in Tehran spread to other commercial hubs in the capital

Fuel Crisis Flashpoint

Iran's ongoing fuel crisis has emerged as a critical flashpoint, reflecting the regime's deepening vulnerabilities. Severe gas shortages during December 2024 forced widespread closures of public spaces, including schools and offices, in many provinces.⁵¹ The regime's inability to ensure consistent fuel supply during cold months has left citizens frustrated and businesses struggling, further exacerbating public discontent. Reports indicate that the crisis has been compounded by outdated infrastructure, mismanagement of energy resources, and sanctions that restrict Iran's ability to import necessary equipment for repairs and upgrades.⁵²

Previous energy crises triggered bouts of unrest, such as the 2019 protests sparked by fuel price hikes, which resulted in widespread demonstrations and violent crackdowns. In recent months, government efforts to redirect gas resources to urban centres have further strained rural areas, intensifying grievances among already-marginalised populations.⁵³ The rationing of fuel has led to rising black-market activity, with prices surging far beyond what most Iranians can afford, contributing to a deepening sense of economic unfairness.

The crisis has also highlighted broader inefficiencies in Iran's energy sector. Despite being one of the world's largest natural gas producers, the IRI struggles to meet domestic demand due to years of underinvestment and international isolation. *The New York Times* recently reported that even key industrial sectors have faced operational disruptions, with factories reducing output or halting production altogether due to a lack of energy inputs.⁵⁴ Iran's energy mismanagement has thus become a visible symbol of the regime's broader economic and political failures, creating fertile ground for domestic unrest. As sanctions and domestic mismanagement continue to cripple Iran's energy sector, the regime's ability to fulfil export commitments has also faltered, further isolating it on the global stage.⁵⁵

Pre-empting Max Pressure: The Case of FATF

Iran's current vulnerability raises the possibility of a sudden dovish turn by the regime, especially as it grapples with economic pressures and internal dissent. This shift could manifest as an attempt to divide Western unity by adopting a more conciliatory stance, exemplified by signals of reconsideration toward joining the Financial Action Task Force (FATF). Such a move would reflect Iran's strategic aim to alleviate economic isolation without fundamentally altering its regional ambitions.

This strategy recalls the Soviet Union's use of *détente* during the Cold War, exemplified by agreements like the SALT I treaty, which eased tensions and limited arms production, while the Soviet Union continued covert operations and military build-up elsewhere. Another instance was

51. Iran Shuts Down Government Offices, Schools Amid Freezing Temperatures, Gas Shortages" *Radio Free Europe/Radio Liberty*, 16 December 2024, accessed via: <https://www.rferl.org/a/iran-schools-offices-closed-gas-shortage/33241265.html>.
52. Cold Snap Exposes Iran's Energy Infrastructure Woes, *OilPrice.com*, 16 December 2024, accessed via: <https://oilprice.com/Energy/Energy-General/Cold-Snap-Exposes-Irans-Energy-Infrastructure-Woes.html>.
53. Half of Iran's industrial capacity halted by energy crisis, *Iran International*, 28 December 2024, accessed via: <https://www.iranintl.com/en/202412282835>.
54. Farnaz Fassihi and Leily Nikounazar, Iran's Energy Crisis Hits 'Dire' Point as Industries Are Forced to Shut Down, *New York Times*, 26 December 2024, accessed via: <https://www.nytimes.com/2024/12/21/world/middleeast/iran-economy-energy-crisis.html>.
55. Umud Shokri, Iran Renews Iraq Gas Contract Amid Production Uncertainty, *Iran International*, 31 March 2024, accessed via: <https://www.iranintl.com/en/202403312465>.

the Helsinki Accords, which appeared conciliatory but allowed the USSR to secure recognition of its Eastern European borders while suppressing dissent domestically. Conciliatory gestures can serve as strategic tools to divide adversaries and relieve external pressures without making substantive concessions. The IRI could similarly seek to undercut sanctions and foster divisions among its adversaries by making more limited concessions on its nuclear programme or even abandoning enough of its regional equities to survive another four years before resuming its previous policy.

The FATF, an intergovernmental organisation aimed at combating money laundering and terrorism financing, has long placed the IRI on its blacklist, citing Tehran's non-compliance with global financial standards.⁵⁶ This status significantly restricts Iran's access to international financial systems, limiting trade, investment, and access to foreign reserves. Iran's Supreme Leader has allegedly recently signalled a willingness to pass stalled legislation, including the Palermo and Combating the Financing of Terrorism (CFT) bills, which could pave the way for FATF compliance.⁵⁷ Such a shift would likely bolster Iran's ability to reintegrate into global banking systems, attract foreign investment, and reduce the transactional costs of legitimate trade. Beyond easing trade, FATF compliance could create long-term economic leverage for the IRI by facilitating broader access to international financial markets and securing partnerships with global firms that have previously avoided engagement due to reputational risks. This would significantly enhance Tehran's ability to stabilise its economy and fund strategic priorities, further complicating efforts to sustain maximum pressure.

However, this potential pivot also presents a calculated effort to undercut the effectiveness of Maximum Pressure—something to watch as the year goes on. FATF compliance could weaken the justification for sanctions by creating the perception of Iranian adherence to global norms, thereby reducing Iran's diplomatic isolation. This would complicate efforts to rally international support for stricter measures, as countries and businesses may see fewer risks in re-engaging with Iran. Countries hesitant to engage with the IRI under current FATF restrictions, such as European states, might be tempted to re-establish economic ties given the lucrative opportunities that Iran's current position offers, undermining the broader sanctions regime. The election of Masoud Pezeshkian as president—characterised as a “bland” reformist allowed to run by the Guardian Council to present a softer face to both the West and its own population—underscores Iran's hedging strategy. Pezeshkian's victory reflects a calculated effort to position the IRI favourably for either a renewed nuclear deal under a potential Biden administration or survival under a second Trump administration. This dual approach ensures that Tehran can pivot between engagement and resistance based on shifting geopolitical realities.

For the UK, resisting any premature relaxation of pressure is paramount. The classic “peace offensive” tactic has been a hallmark of Iranian strategy since the end of the Iran-Iraq War. Previous instances of reconciliatory policy, driven by pressure, merely allowed the regime to reconsolidate

56. High-Risk Jurisdictions subject to a Call for Action, FATF, 25 October 2024, accessed via: <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-october-2024.html#:~:text=This%20list%20is%20often%20externally,on%20these%20high%20risk%20jurisdictions>

57. Khamenei allows policy review to ease Iran's trade restrictions, Iran International, 31 December 2024, accessed via: <https://www.iranintl.com/en/202412315937>.

and buy time. For example, under President Akbar-Hashemi Rafsanjani in the early 1990s, the IRI sought to rebuild ties with the West following the Gulf War, a period marked by severe economic challenges and regional isolation. Rafsanjani notably worked to secure the release of Western hostages held by Hezbollah and other militias in Lebanon. Similarly, the presidency of Mohammad Khatami was marked by the so-called “Dialogue of Civilisations,” which sought to engage the United States. Khatami’s approach was epitomised by his “smiling diplomacy,” a 1998 speech on CNN calling for a “thoughtful dialogue” between Iranian and American people—the first time an Iranian leader had directly addressed an American audience in such a conciliatory tone since the 1979 Revolution—and Iran’s symbolic overtures and practical assistance to the United States in the aftermath of the September 11 attacks.⁵⁸

Under Hassan Rouhani, the IRI similarly demonstrated its tendency to buckle under external pressure when faced with intense sanctions during the Obama administration. Rouhani’s government capitalised on the crippling effects of Obama’s 2012 sanctions, particularly those targeting Iran’s central bank and oil revenues, which caused a dramatic collapse in the Iranian economy. These pressures forced the IRI to the negotiating table, ultimately culminating in the 2015 Joint Comprehensive Plan of Action (JCPOA). The JCPOA was framed as a victory for diplomacy, yet it primarily served as a means for the regime to buy time, access frozen assets, and re-enter global markets without conceding its long-term revisionist ambitions; the regime said as much to its own people and subsequently pursued an aggressive programme of proxy warfare against the United States and its regional allies.⁵⁹

These examples underscore how the regime leverages conciliatory gestures as strategic tools to divide adversaries and regain footing under pressure. This pattern is evident again in the context of potential FATF compliance, which similarly offers the IRI a pathway to economic reintegration without resolving deeper geopolitical concerns. The UK should prepare for such tactics by maintaining a firm stance and ensuring that any overtures are met with unified coalition resistance. Adopting FATF standards would potentially allow Tehran to reconsolidate its economic base and project an image of compliance, even flattering the incoming Trump Administration, without addressing underlying concerns about regional destabilisation or missile development.

The UK should advocate for collective resistance to such overtures, particularly within the European community, emphasising that re-engagement at this juncture risks squandering a rare opportunity to cement Iran’s isolation.

Additionally, engaging with private sector stakeholders across Europe to highlight the reputational and financial risks of re-engaging with the IRI could further bolster coalition solidarity and deter unilateral actions that might weaken the maximum pressure campaign. Close coordination between London and European allies is essential to prevent Tehran from exploiting divisions within the coalition; London could in this case play

58. CNN: Transcript of interview with Iranian President Mohammad Khatami [Excerpt], 7 January 1998, accessed via: <https://nsarchive.gwu.edu/document/28046-document-06-mohammad-khatami-interview-cnn-excerpt-january-7-1998>

59. Hossein Bastani, *yek fatway-ye haste-y - be-ine sutoor*, BBC, 29 January 2022, accessed via: <https://www.bbc.com/persian/iran-features-60114980>

the bridge between Washington and the various European capitals which are likely to veer towards a more passive, dovish approach. While steps such as FATF compliance could appear as steps toward moderation, it must be scrutinised as a potential ploy to weaken sanctions and restore regime resilience. This is not least because the core of the regime—comprising the Supreme Leader, his inner circle, the leadership of the IRGC, and Iran’s key foreign policy bodies, the Expediency Discernment Council and the Supreme National Security Council—has remained almost totally unchanged since Pezeshkian’s inauguration.⁶⁰ This likely leaves little room for genuine or enduring rapprochement.

At the same time, the IRI is almost certain to offer some modest concessions in one area or another in order to divide the West; and we should fortify ourselves against such initiatives. But it would be right to recognise that the debate has moved on in Europe. There is much wider recognition than before that any future deal with the IRI would have to go much further than the JCPOA - the revival of which is no longer on the table; as well of the fact that a future deal would have to deal also with Iran’s regional subversion and support for terrorism, particularly in Europe.

After Rollback: A Post-Regime Collapse Scenario

As the momentum to roll back Iran’s influence continues to accelerate, it is crucial to consider the implications of a regional order without Tehran’s destabilising presence as a central driver. Again, it bears noting that this juncture has not yet arrived, although it could arrive much faster than has been anticipated in recent years. For decades, Iran’s regional ambitions have acted as a centripetal force, pushing rival Gulf monarchies into closer alignment with one another and with Western powers. Without this unifying threat, internal divisions within the GCC could resurface, particularly as states like Saudi Arabia and the UAE pursue diverging economic and geopolitical strategies, such as Vision 2030 or ties with Turkey. This reordering of alliances risks exposing existing fissures, potentially weakening collective security frameworks.

Turkey’s growing influence in Syria and northern Iraq is another critical factor to consider. If Ankara solidifies its position as the dominant power in these areas, it could reshape regional dynamics in ways that sideline Western interests or complicate ongoing containment efforts. The UK has a unique and positive relationship with Turkey among main European players, making it a potential candidate for any necessary intermediary roles that may arise. Turkish-backed proxies gaining prominence in key territories further complicate these dynamics, necessitating a careful strategy that combines pressure and cooperation to ensure that Turkey’s ascendancy does not undermine efforts to stabilise the region post-Iranian rollback.

In Iraq, the rollback of Iranian patronage over local Shia militias presents both an opportunity and a challenge. In Iraq, Iran’s influence in Iraq has been very destructive to state capability and legitimacy. A reduction in

60. CFR.org Editors, The Islamic Republic’s Power Centers, *Council on Foreign Relations*, 26 June 2024, accessed via: <https://www.cfr.org/article/islamic-republics-power-centers>

Iranian influence and patronage for Shi'a militia groups can only be a net positive. At the same time, there is a question about the implications this would have on Iraqi domestic politics and whether this could lead to a renewed bout of sectarian tensions. Likewise, the resurgence of Islamist movements as a central issue in regional politics, without the IRI as a counterbalance, would shift the landscape of Western engagement, necessitating recalibrated strategies focused on Sunni Islamist networks rather than Tehran's state-sponsored activities

Finally, the West's position in the Middle East may face redefinition. Much of its regional engagement has been built around countering Iranian influence. The absence of this organising principle could challenge Western powers to maintain relevance as regional players like Turkey, Saudi Arabia, and the UAE adopt increasingly independent and assertive foreign policies. This underscores the urgency of preparing for Middle East without the IRI as a major player, ensuring that the strategic gains from rollback do not inadvertently destabilise the region or diminish Western influence.

The dissolution of Iran's regional influence presents a rare chance to reshape the Middle East into a more stable and balanced order. Failing to capitalise on this would not only risk squandering a pivotal juncture but could also embolden Tehran to recalibrate and rebuild its networks of influence, potentially prolonging instability for decades to come. The imperative is clear: ensuring that the IRI remains isolated and weakened is critical to fostering long-term security and geopolitical alignment in the region. The strategic opportunity to isolate the IRI raises questions about what comes after the elimination of the Iranian nuclear program, the neutering of Iranian influence in the region, or the actual collapse of the Islamic Republic with all that it entails.

Part III: Policy Recommendations

There are numerous policy options that the UK should already be considering, in line with the signals given by the key designated officials of the incoming Trump Administration. The UK must begin to plan along the spectrum of future scenarios so that it is well placed to act proactively and swiftly. Some of these are unilateral, the others will only work in concert with allies and partners. The best UK strategy will therefore be one which has a clear understanding of the bureaucratic and operational mechanisms needed to attain maximal effectiveness.

The following list provides the immediate policy measures to be taken if the U.S. pursues the likely course of action detailed above, in descending order of urgency:

Contributing to Maximum Pressure

- **Change the Political Narrative on the Regime:** For almost a decade, the UK – alongside European partners – has refrained from assertively proclaiming that the Iranian regime is a top-tier threat to British interests – opting primarily to limit public criticism to its human rights abuses, nuclear programme and to a lesser extent, its proxy activity. The rationale was that keeping the door for diplomacy ajar would eventually lead to more benign regime behaviour. But it is now clear that this regime does not respond positively to such diplomacy; this attempted approach has run its course. Following the full demonstration of the regime’s malignancy – its role in regional conflict since 7 October 2023; the scale of Iranian interference and targeting of individuals on British soil; and its support for Russia’s war efforts, we must therefore change the narrative. The UK must be clear: there is nothing that this regime does which is in our interests; indeed, everything it does threatens them and the security of the UK, our partners, and the Iranian people themselves. The Government should therefore undertake a fundamental shift in its articulation, and treatment, of the Iranian regime’s threat – signalling to the millions of Iranians, who wish to see its end, that we will offer the support we can.
- **Securing European Unity:** With this new narrative established, the most significant role that the UK can play in the coming years is as a leader of a more robust, united European position on Iran policy. This includes taking the lead on hosting dialogues on Iran

and playing the role of a bridge between Washington and the European capitals. A key focus of Iranian policy is to create and exploit rifts within the Western alliance. The UK is in a position to hedge against that option. Likewise, there has been a tone shift on the continent. France and Germany, traditionally doves on Iran questions, are now bound less by apprehension than inertia. The UK can play a leading role in shepherding European partners to lend political support to a maximum pressure policy.

- **Information Campaign:** Amplify awareness of the regime's corruption, mismanagement, and prioritisation of military spending over public welfare. Highlight economic issues like inflation, unaffordable goods, and the healthcare crisis caused by the lack of imported medical supplies. Capitalising on the growing awareness across Europe of Iran's malign domestic interference will also be crucial to maintaining unity of cause, should Iran seek to sow discord via tactical reconciliation. Towards this end, carefully selected intelligence regarding the extent and designs of Iran-affiliated individuals and entities should be regularly publicised in British media. The purpose of these measures is not to spread paranoia, nor actively pursue regime shift, but to acknowledge that a previous unwillingness to expose Iran's internal problems and overseas subversion has not curbed its efforts, but has emboldened them.
- **Highlight Corruption:** Corruption in the IRI remains a major mobilizing force, and is a major topic of discussion inside of Iran. In particular, the corruption of senior IRI politicians, IRGC members, and their families should be communicated and shamed. This is also the case for corruption by Iranian officials and their associates that takes place outside of Iran, including in Europe and the United States.
- **Change the paradigm:** British policy towards the Islamic Republic should focus on the dynamic of the regime and the Iranian people. The essential question that must be asked is whether policy choices either strengthen the agency and confidence of Iranians to confront the regime where possible, or whether it strengthens the ability of the regime to withstand significant pressure from within. Open confrontation is not in the interest of the UK, although supporting the disassociation of Iran's rulers from its people—including in public-facing communications—is an important first step. Given the extent of discontent inside of Iran, manifested through low election turn-out and mass protests, it is key to draw a distinction between the regime and the people of Iran. The goal of this is not least to make it clear to the Iranian people that, contrary to the regime's propaganda, there is no conspiracy against them; rather, the measures taken against the Iranian state are a direct consequence of the regime's foreign policy and in certain cases, due to measures taken by Iranian officials against Iranian civilians.

It is no longer possible to discuss “Iran” in the conventional sense: an effort should be made to refer as much as possible to the Iranian “regime” or to the theocracy itself, the Islamic Republic of Iran (IRI).

- **Support Defectors:** Offer sanctuary and other incentives to encourage high-profile defections from government ranks, particularly from senior officials and military elites. More specifically, target figures in the regime, particularly within the Beit-e Rahbari (Office of the Supreme Leader of Iran), to discredit the regime’s structure and to erode its legitimacy both within and outside the regime. Such defections would not only undermine morale but also serve as a potent symbol of the regime’s growing instability and isolation. The UK is particularly well-placed to facilitate these defections, leveraging its diplomatic and security apparatus to amplify the internal disruption caused by these departures. Historical parallels can be drawn to defections from the Soviet Union during the Cold War, which significantly eroded Soviet cohesion and showcased the appeal of Western alignment. These defections symbolised systemic weakness and provided the West with important political leverage— as well as an important reminder of its own moral high ground. Moreover, it should be noted that Iran itself conducts similar operations to encourage defections or gather intelligence abroad, including within the UK. Supporting defections is not an escalation but a proportional and pre-emptive strategy to counter Iran’s own actions while maximising pressure on the regime and exposing its vulnerabilities internationally.

Deterrence during Maximum Pressure

- **Equal and opposite reactions:** The UK should further consider its equation for establishing deterrence in the IRI with regard to British interests, including at home. Future attempts by the IRI to conduct lethal operations against British citizens will be met with lethal operations by the UK in contested areas such as Iraq. As it stands, the IRI has deterred the UK through the threat of regional escalation. Particularly given the events of the last year, and the entry of the new U.S. administration, this should no longer be the case.
- **Clear red lines:** It should be made clear that the UK would endorse attacks on the Iranian nuclear program should evidence arise that Iran is attempting a nuclear “breakout”, irrespective of the extent of UK participation in such operations. This assumption is implicitly the case.
- **Leverage Protests and Crisis Points:** Focus on exacerbating unrest, such as protests in the bazaars and dissatisfaction arising from the fuel crisis. These crises offer unique opportunities to build

broader momentum for regime change or significant reform by highlighting systemic failures and amplifying grievances among key demographics. Supporting these efforts through targeted messaging, diplomatic pressure, and direct engagement with opposition networks can transform isolated protests into sustained challenges to the regime's legitimacy. These crises reveal systemic vulnerabilities that can be used to destabilise the regime further.

By integrating these measures, and at a relatively low cost, the UK can position itself as a leading actor in shaping a new Middle East. To be sure, Tehran has several ways to reply: from expelling the British Embassy in Tehran or ordering the closure of British-affiliated institutions like the British Council or the British School of Tehran. Far worse would be an escalation of Iranian covert operations, including orchestrating terror plots on British soil or targeting British nationals and assets abroad, particularly in Iraq or the Gulf region. However, such risks must be viewed in the context of the historic opportunity at hand.

The UK's engagement in maximum pressure is not just about containing a regime—it is about securing a leadership role in shaping the future of the Middle East while securing the cooperation and goodwill of the United States on other matters of import to the United States. Through sustained involvement, the UK is effectively purchasing a seat at the table in determining the region's post-Iranian order. This positioning will ensure that British interests are represented in the region's economic and security architecture, preventing others, like Turkey or Russia, from filling the vacuum created by Tehran's decline. To step back now would be to cede this opportunity and squander the chance to shape the trajectory of a pivotal region for decades to come.

In addition, despite the profound geopolitical changes that have occurred since July 2023, a number of *The Iran Question and British Strategy's* recommendations remain fundamentally sound:

Diplomatic Steps

In the short-term the UK should expand its diplomatic footprint in Azerbaijan with an emphasis on its military attaches. The only state that can legitimately disrupt Caspian Sea trade with Western-aligned interests is Azerbaijan. The British Embassy in Baku should be treated as a Caspian Sea hub, serving as the primary regional node for diplomatic activity with a greatly increased staff. The UK should equally expand military staffing in Baku, above the current single military attaché in Tbilisi.⁶¹ The UK should also make its Baku defence attaché the regional lead, with authority over the Caucasus, Central Asia, and Iran. Splitting this assignment would provide greater focus on the Caucasus-Caspian region, and by extension, on Iran.

The UK should prioritise regional military exercises with Israel. The UK has exercised with Israel in the past, most recently during a joint Search-and-Rescue exercise alongside the Cyprus National Guard.⁶² The UK should join

61. MOD does not publicly list its attaches, but see the following for a list of attaches that includes Georgia only: <https://www.theyworkforyou.com/wrans/?id=2010-11-08a.10.0>. Moreover, UK defence attaches to Georgia are typically credentialed as the UK defence attache to Georgia, Armenia, and Azerbaijan.

62. "Israeli Air Force conducts joint training with UK and Cyprus", *Air Force Technology*, 4 April 2022, accessed via: <https://www.airforce-technology.com/news/israeli-air-force-conducts-joint-training-with-uk-and-cyprus/>.

multilateral Eastern Mediterranean exercises alongside Israel, in particular the Greek-based INIOCHOS exercises that typically include Israel, Greece, Italy, and Cyprus.⁶³ Larger-scale commitments would be ideal. However, the UK need not expend significant resources on these exercises. Instead, it could task the nine RAF fighters deployed to RAF Akrotiri to engage in these exercises without significant strain upon operational tempo. The long-term goal should be British participation in major U.S.-Israeli exercises akin to the January 2023 JUNIPER OAK exercise.⁶⁴

A UK-Israel FTA can be used as an incentive for the GCC: Complementary UK-Israel and UK-GCC FTAs would position the UK as an important player in a budding integrated Middle Eastern trade system.⁶⁵ Talks to this end have been ongoing for several years, although the current moment is opportune given the momentum that will be placed behind the expansion of the Abraham Accords.

Soft Power, Social Cohesion, Intelligence, and Human Rights

The UK should identify and disrupt IRGC propaganda channels and subversive elements within the UK. This involves standing up a new interagency team that integrates intelligence analysts from MI5, MI6, and the NCA. This team would combine traditional intelligence-gathering techniques with open-source methods that rely on translated documents from Iranian media in addition to interfacing with Iranian diaspora groups within the UK.⁶⁶ This would allow the UK's public diplomatic efforts to directly target current trends in Iranian propaganda, disrupting it more effectively, also allowing the security services to identify Iranian propaganda far more efficiently; the distinctive ideological and rhetorical tags and call-outs in Iranian propaganda will be more readily apparent after systematic analysis.

Ofcom should take steps to seriously investigate Iranian influence in the media. There are immediate steps the UK can take to regulate Iranian broadcasters. Most effective would be to use Ofcom's regulatory power to scrutinise Shia TV Box, a streaming outlet owned by Hidayat TV, an outlet that has been investigated and restricted by the FBI in the United States.⁶⁷ Likewise, Ofcom should be directed to identify and regulate broadcasters with known links to the Iranian regime. There is obvious precedent for such actions: in July 2022, for example, Ofcom found RT UK in breach of its impartiality standards and revoked its licence.⁶⁸

The UK should revive soft power tools, particularly BBC Persian but also other relevant regional networks. In 2009, BBC Persian received a major funding boost with the establishment of BBC Persian Television, with a £15 million annual budget.⁶⁹ This funding boost supercharged BBC Persian's reach. The Iranian government has cracked down on foreign media,⁷⁰ although BBC Persian has the credibility to become a major news source amongst the

63. "«INIOCHOS» Exercise", *Hellenic Air Force*, accessed via: <https://www.haf.gr/en/structure/htaf/air-tactics-center/iniochos/>.

64. David Vergun, "Largest U.S.-Israeli Exercise in History Concludes", *U.S. Department of Defense*, 26 January 2023, accessed via: <https://www.defense.gov/News/News-Stories/Article/Article/3279772/largest-us-israeli-exercise-in-history-concludes/>.

65. "UK-Gulf Cooperation Council trade negotiations update: December 2022", *Department for International Trade*, 20 December 2022, accessed via: <https://www.gov.uk/government/news/uk-gulf-cooperation-council-trade-negotiations-update-december-2022>.

66. Essentially, this replicates the functions of the U.S. Information Agency, a hybrid intelligence and public diplomacy organisation stood up during the Cold War to fine-tune the American response to Soviet propaganda and subversion. See Christian Whiton, *Smart Powr: Between Diplomacy and War* (Washington, DC: Potomac Books, 2013), 166-169.

67. See the Hidayat TV domain name in the U.S., accessed via: <https://haditv.com/>.

68. "Ofcom finds RT in breach of due impartiality rules", *Ofcom*, 18 July 2022, accessed via: <https://www.ofcom.org.uk/news-centre/2022/ofcom-finds-rt-in-breach-of-due-impartiality-rules>.

69. "Bridging the Persian Gulf", 14 January 2009, accessed via: <https://www.thetimes.co.uk/article/bridging-the-persian-gulf-rrzgt-9g3hf5>.

70. Kasra Najj, "BBC Persian radio is a lifeline to millions and must be saved", *The Times*, 13 February 2023, accessed via: <https://www.thetimes.co.uk/article/bbc-persian-radio-is-a-lifeline-to-millions-and-must-be-saved-glphnf56l>.

Iranian opposition and in the Iranian expatriate community if its coverage is properly targeted and it receives sufficient funding.⁷¹ From 2014 to 2022, the BBC World Service received £254 million of annual funding from BBC licence fees, along with small additional grants from the FCDO.⁷² However, a licence fee freeze has forced the BBC World Service to make significant cuts.⁷³ It is key to ensure adequate funding for BBC Persian. Key to this is engagement with mobile technology, particularly content leveraged to smartphone users in view of the ubiquity of smartphones across Iran. Content designed for mobile users should be the main source of content production as a way to engage meaningfully with Iran's population.

The UK should create a number of language programmes to expand its pool of regional specialists and talented linguists. The UK should tackle its shortage of Arabic and Persian linguists by language and culture training scholarships and partnerships for British undergraduates. The US system offers several possible models. In the United States, Critical Language Scholarship (CLS) supports undergraduates and graduate students in intensive language-learning summer programmes, offering training in 14 languages, including Arabic, Farsi, Turkish, and Azeri.⁷⁴ CLS receives funding through the State Department. Moreover, there is also the Foreign Language and Area Studies Fellowships (FLAS) programme, which serves a similar role to the Boren Scholarships and CLS, but is run through the Department of Education.⁷⁵ The UK can offer direct financial credit to British students that achieve above a certain mark in languages designated as critical to the British national interest. This would go beyond the current piecemeal funding model, under which different private organisations and at times UK academic research councils offer limited funding. It is worth noting that Erasmus Mundus Mobility Scholarships are open to all students who study in Europe.

Centralising and ring-fencing this funding within the FCDO's ODA budget might be the prudent step – FCDO could then work with universities to facilitate language-study programmes and provide direct financial support to students engaging in specific relevant languages. This forward-leaning approach would, over the course of a decade, cultivate a crop of high-quality British specialists.

The UK should pursue an intelligence-led human rights policy that exposes Iran's flagrant disregard for human dignity both within Iran and internationally. Public executions are the most vivid illustration of this, although the same goes for arbitrary detention. Other sorts of abuses of other kinds occur in the IRI every single day – women are beaten, citizens arrested for political purposes, and hundreds disappeared or executed each year. The UK should prioritise identifying these acts and disseminating awareness of them to demonstrate, beyond a shadow of a doubt, that the IRI is a flagrant violator of human rights. There is an obvious parallel to Western actions during the Cold War, when NATO countries would identify and publicise

71. Zoe Tidman, "BBC to cut hundreds of jobs across World Service with radio stations to close", *The Independent*, 29 September 2022, accessed via: <https://www.independent.co.uk/news/media/bbc-job-cuts-world-service-b2177962.html>.

72. *BBC World Service Performance Review, 2016-2020*, 4.

73. Heather Evennett, "BBC World Service: Soft power and funding challenges", *House of Lords Library*, 24 November 2022, accessed via: <https://lordslibrary.parliament.uk/bbc-world-service-soft-power-and-funding-challenges/>.

74. "CLS", accessed via: <https://clscholarship.org/>.

75. "Foreign Language and Area Studies Fellowships Program", *U.S. Department of Education*, accessed via: <https://www2.ed.gov/programs/iegpsflasf/index.html>.

the ordeals of Soviet dissidents.⁷⁶ In Solidarity’s case, for example, the US spent only \$5 million (£4.16 million), primarily in publicity campaigns, which triggered an outsized Soviet response out of reflexive paranoia.⁷⁷ A similar reaction is possible in Iran, as the IRGC and Iranian security state more broadly see every dissident and mild act of resistance as the result of a complex intelligence operation. Simply publicising and supporting Iranian dissidents and acts of resistance within Iran can have an outsized effect on the Iranian regime.⁷⁸

The UK should identify, surveil, and close down known Iranian front organisations in the country. As Policy Exchange demonstrated in its recent paper *Tehran Calling*, there are a number of Iranian-sponsored front organisations in the UK, including the Islamic Centre of England – which includes the Supreme Leader as a statutory member of its board, and whose director is appointed directly by the Supreme Leader’s office– in addition to a much broader network of supposed charities and other “humanitarian” organisations that explicitly support Iranian influence operations in the UK.⁷⁹ All means must be used to crack down on and limit the operational reach of these organisations, from the Charities Commission to denial of visas by the UKVI.

Financial Intelligence and Sanctions

HM Treasury should establish a legitimately integrated executive enforcement arm that resembles the US’ Office of Foreign Assets Control (OFAC). The UK does have an agency that is meant to resemble OFAC, the Office of Financial Sanctions Implementation (OFSI), stood up in 2015 in a manner that explicitly mirrored OFAC. However, there are several key differences. OFSI, as an arm of HM Treasury, does not have an intelligence relationship with an in-house agency. By contrast, OFAC is part of the US Treasury Department’s Office of Terrorism and Financial Intelligence (TFI), which has its own intelligence element, the Office of Intelligence and Analysis with an international presence. By contrast, HM Treasury must rely on intelligence from the National Crime Agency’s Financial Intelligence Unit (UKFIU) and, when applicable, intelligence gained from other departments, including FCDO.⁸⁰ The NCA has some international presence and is reasonably resourced. However, there is no dedicated FININT international network that feeds into UK sanctions enforcement, unlike the OFAC-OTFI relationship. Moreover, sanctions identification and enforcement are bifurcated – although OFSI prosecutes sanctions, it does so only upon the direction of “sponsoring departments”, typically the FCDO and the Home Office.⁸¹ Hence sanctions are one of many “tools in the toolkit” for counterterrorism that should be guided by a coherent strategy for implementation, not a strategic capacity in their own right. Moreover, OFSI is perceived as ineffective because it lacks clear enforcement powers. OFAC has the authority to prosecute aggressively the US sanctions regime. The Executive sets general guidelines and targets, but OFAC, working with OTFI, has a reputation as a remarkably agile and adaptive agency that doggedly tracks down sanctions

76. Mark Hurst, “Crossing the curtain: British activists and the echoes of soviet dissent in contemporary Russian human rights activism”, *Cambridge Review of International Affairs* (2022), 3-7ff.

77. See Seth G Jones, *A Covert Action: Reagan, the CIA, and the Cold War Struggle in Poland* (London: WW Norton, 2018).

78. “Iran bus drivers stage strike to protest low salaries”, *Arab News*, 16 May 2022, accessed via: <https://www.arabnews.com/node/2083311/middle-east>. See also “Oil, Steel Industry Workers Join Strikes In Iran”, *Iran International*, 8 November 2022, accessed via: <https://www.iranintl.com/en/202211082635>.

79. See *Tehran Calling*, Policy Exchange, 2024.

80. This is not a new issue. See Koos Couvée, “FATF Criticizes ‘Deliberate’ Limitation of UK Financial Intelligence Unit”, *MoneyLaundering.Com*, 30 October 2018, accessed via: <https://www.moneylaundering.com/news/fatf-criticizes-deliberate-limitation-of-uk-financial-intelligence-unit/>.

81. Jonathan Hall, *Report of the Independent Reviewer of Terrorism Legislation on the Operation of the Counter Terrorism (Sanctions) (EU Exit) Regulations 2018* (December 2022), 1.15.

targets.⁸² Lessons can also be learnt from the Ministry of Defence, which has a threat finance unit and a doctrine for tackling threat finance and using economic levers. This unit was established to fight Daesh's internal economy and was successful in doing so. Where it has been used since is classified but it, and the extensive international network of relationships it has created, could be targeted against the IRI and its proxies.

HM Treasury should plan to hire at least 100 more staff permanently tasked to OFSI, ideally reaching 200 staff in the next 18 months. Moreover, the NCA and OFSI should establish a liaison programme in which around a dozen UKFIU officers are attached to OFSI directly to give OFSI a more robust internal intelligence capacity. As it stands, only 70 staff work for OFSI.⁸³ On average, fewer than ten staff can assist British companies in navigating sanctions regulations. This is despite a sevenfold increase in Russia-related sanctions over the past year. HM Treasury needs to expand OFSI, leveraging the talent of the UK's financial and legal sector to build an organisation with legitimate enforcement capacity.

Legal Modifications

The British legal system rests upon a peace-war binary that severely restricts the way in which the UK can respond to the IRI threat. Breaking the peace-war binary requires an intellectual shift that began with the counter-IS campaign. Military circles came to understand the operational challenge of grey-zone conflict in the mid-2010s, as a result of their experience in Iraq and Afghanistan. Integrating the implications of this shift into wider policy and practice is fundamental if the UK is to respond to Iranian actions – and those of analogous actors in the future. Legally speaking, there are three steps to be taken to allow the UK to act in a grey-zone situation.

First, the UK should identify an appropriate proscription vehicle to undermine the IRGC's operational space in the UK. The UK should use the National Security Act to extend proscription-type limitations to the IRGC and other IRI-linked organisations without employing the Terrorism Act (2000). This means placing Iran on the enhanced tier of the incoming Foreign Influence Registration Scheme, requiring all that all individuals and entities disclose their links to the Iranian Government and affiliated organisations.⁸⁴ There is legislative appetite for more aggressive action on the Iran question. However, the Terrorism Act (2000) is the wrong vehicle for this legislation. The Terrorism Act's proscription powers would be useful when applied to Iranian-linked organisations. They would allow the UK, for example, to use police powers against suspected Iranian affiliates without actual proof of an active pro-Iranian plot, investigate and suspend operations at Iranian-linked front companies, and do the same for Iranian-affiliated organisations posing as civic groups or religious institutions. However, the Terrorism Act as drafted applies to non-state groups. This has a sound legal logic. Extending to non-state groups similar rights to state would be extraordinarily problematic for international law.⁸⁵ States can

82. Ethan Kessler, "Working Paper: How Economic Sanctions are Used in U.S. Foreign Policy", *Chicago Council on Global Affairs* (March 2022), 6-10.

83. Kalyeena Makortoff, "UK office in charge of Russia sanctions has just 70 staff, says director", *The Guardian*, 22 June 2022, accessed via: <https://www.theguardian.com/business/2022/jun/22/uk-office-charge-russia-sanctions-just-70-staff-director>.

84. Foreign Influence Registration Scheme fact-sheet, HMG, updated 19 August 2024, [link](#).

85. See Johnathan Hall, *Hidden Implications: Islamic Revolutionary Guards Corps and Terrorism Proscription* (Independent Reviewer of Terrorism Legislation, 11 January 2023), accessed via: <https://terrorismlegislation-reviewer.independent.gov.uk/wp-content/uploads/2023/01/IRGC-Note-Jan-23-1.pdf>.

commit terrorist acts – Russia’s civilian strike campaign in Ukraine, along with its brutality against Ukrainian citizens in occupied areas, certainly constitutes terrorism. Yet using the same legal vehicle that empowers the UK government to respond to non-state terrorist activity to counter state action risks unduly reducing the distinction between state and non-state actors, with thorny long-term legal consequences for the UK’s terrorism enforcement. The solution is to place a proscription-style set of capabilities within some other legislative vehicle, most easily the National Security Act, and use that to empower the UK government to limit Iranian activity. This would provide the same benefits as proscription while avoiding the potential legal issues that proscribing the IRGC as a terrorist organisation.

Second, the UK should view regulation as a strategic instrument. It should have its major regulatory authorities more aggressively enforce basic regulations to ensure sanctions compliance and limit Iranian financial access. Much of Iranian cashflow is illegal but below the threshold of actively-prosecuted crime. The National Crime Agency and MI5 lack the resourcing to prosecute all Iranian illicit finance. However, British regulatory bodies can modify their practices to increase the cost to British organisations that work with Iranian affiliates. For example, the Financial Reporting Council (FRC) could begin to investigate much more aggressively suspected accountancy violations.⁸⁶ This would require not new powers, but an actual mandate to prosecute various breaches of good conduct. Similarly, the Charities Commission could be tasked with equivalent objectives in the Charitable Trust domain, auditing those charities that are most likely to have links to the Iranian regime or IRGC. This has begun, albeit extremely slowly, with the Charity Commission’s investigation of the Maida Vale Islamic Centre of England.⁸⁷ Companies House would also be a particularly fruitful line of pressure. Since February 2022, Parliament introduced new legislation that requires foreign companies to reveal ownership and financing when they purchase UK property.⁸⁸ However, despite these new regulations, some 18,000 foreign companies have ignored registration requirements, with no legal consequences.⁸⁹ By actually resourcing and directing regulatory bodies like the FRC, Charities Commission, and Companies House to fulfil their remit and prosecute and fine those entities that violate UK law, the freedom of action for Iranian and other illicit financial action would be sharply curtailed.

Third, the UK must begin making concerted efforts to disrupt the Iranian dark tanker fleet. The risk of oil price spikes is routinely given as a reason not to enforce oil sanction regimes, as was the case prior to the former Trump administration reinstating sanctions on Iranian oil in 2018.⁹⁰ This may have held true as long as the White House itself favoured such a policy, but the incoming Trump Administration is unlikely to balk at the potential costs of hitting Iran’s main revenue raiser. As the U.S. can singlehandedly strangle Iranian oil exports in any case, the UK has far more to gain by showing a willingness to follow suit – both in terms of weakening the second

86. Siddharth Venkataramakrishnan and Stephen Morris, “Barclays probed by UK regulator over anti-money laundering systems”, *Financial Times*, 10 February 2023, accessed via: <https://www.ft.com/content/0a1eb38d-7409-42ba-8098-720ce9eef4d5>.

87. “Regulator launches inquiry into Islamic Centre of England”, *Charity Commission*, 22 November 2022, accessed via: <https://www.gov.uk/government/news/regulator-launches-inquiry-into-islamic-centre-of-england>.

88. See *Economic Crime (Transparency and Enforcement) Act 2022*, accessed via: <https://www.legislation.gov.uk/ukpga/2022/10/contents>; see also “Register of Overseas Entities”, *Gov.UK*, 13 January 2023, accessed via: <https://www.gov.uk/government/collections/register-of-overseas-entities>.

89. Nassos Stylianou, Will Dahlgreen and Alison Benjamin, “UK property register: What three luxury homes reveal about who owns UK real estate”, *BBC*, 7 February 2023, accessed via: <https://www.bbc.co.uk/news/uk-64536926>.

90. Yen Nee Lee, Trump’s sanctions on Iran could push oil prices above \$100 per barrel, *CNBC*, 11 September 2018, accessed via: <https://www.cnb.com/2018/09/11/trump-iran-sanctions-driving-oil-prices-to-100facts-global-energy.html>

gravest state threat to national security, and fostering goodwill with the incoming U.S. administration. There are three ways, combining unilateral and multilateral efforts, to do so:

- The UK government should fully align with the United States sanctions regime on vessels involved in the illicit trade of Iranian petroleum products. Whilst the UK has sanctioned The Islamic Republic of Iran Shipping Lines Group for supplying weapons to Russia, it has not ever sanctioned any organisation explicitly for transferring Iranian – never even the Iranian National Tanker Company, nor any ghost vessels known to be transferring Iranian oil.⁹¹ The U.K. should address this and ensure regulatory pressure on British corporate engagement with potential illicit buyers and transporters of Iranian oil. This is of heightened pertinence due to the fungibility of the vessels which constitute the shadow fleets pooled by sanctions-circumventing states – with 90 ghost vessels which previously exchanged Iranian oil now estimated to sell Russian petroleum.⁹² Ships currently involved in the Iranian oil trade will likely be used in the future by Russia as a means to evade sanctions. Indeed, a recent report by Reuters details how vessels owned by a currently unsanctioned company Iranian company, Sahara Thunder, have carried oil from both Iran and Russia to Chinese ports.⁹³ This all speaks to the need for the UK to confront the shadow tanker fleets of sanctions-circumventing states as a systemic challenge demanding coordinated action.
- Secondly, the United Kingdom, along with the United States and other G7 allies, should disrupt the Iranian dark tanker fleet by increasing pressure on third party states to remove their flags from vessels deemed to facilitate the illicit sale of Iranian oil. The U.S. demonstrated the success of this approach, when Panama issued a decree revoking the registration of vessels sanctioned by the U.S., U.K. and the EU, following pressure from Washington. Panama, which, according to United Against Nuclear Iran, is used for registration by 20% of the ghost vessels shipping Iranian oil,⁹⁴ also published a circular that establishes prerequisites for flagging and that allows due diligence to be carried out on the vessel, its owner and its operator.⁹⁵
- The United Kingdom should also join the U.S. in urging co-operation between third party states known to issue flags of convenience to shadow tankers. With the US last year overseeing the launch, by Liberia, Panama and the Marshall Islands, of the Registry Information Sharing Compact database, which allows states to inform one another when a vessel has been denied registration, in order to reduce ‘flag hopping.’⁹⁶ In addition to this, the U.K. can task its own UK Maritime Agency to more aggressively review merchant flag applications and improve tracking and verification of any vessels that pass through British waters, given the English Channel remains a major conduit for Russian, and by extension Iranian, dark tankers.

91. FCDO, UK Sanctions List, accessed via: <https://search-uk-sanctions-list.service.gov.uk/>

92. Claire Jungman and Daniel Roth, The Switch List: Tankers Shift From Carrying Iranian Oil to Russian Oil, *United Against Nuclear Iran*, 31 December 2024, accessed via: <https://www.unitedagainstnucleariran.com/blog/switch-list-tankers-shift-from-carrying-iranian-oil-to-russian-oil>

93. Reuters, How Iran moves sanctioned oil around the world, 7 January 2025, accessed via: <https://www.reuters.com/graphics/IRAN-OIL/zjpnqgedmvx/>

94. Claire Jungman & Daniel Roth, The Ghost Armada, *United Against Nuclear Iran*, 31 December 2024, accessed via: <https://www.unitedagainstnucleariran.com/blog/stop-hop-ii-ghost-armada-grows>

95. <https://www.seatrade-maritime.com/regulations/panama-takes-action-against-vessels-evading-sanctions>

96. Embassy of Panama, Panama presents RISC database to the United States of America, 15 August 2024, accessed via: <https://www.embassyofpanama.org/news/2024/8/15/panama-presents-risc-database-to-the-united-states-of-america>



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