

Written Evidence from Catherine Perez-Shakdam (IEF0035)
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On the UK's international relations and economic security?

About the Author

Catherine Perez-Shakdam joined the Henry Jackson Society in June 2022 as a Research Fellow for the New Middle East Centre. She previously worked at the Next Century Foundation (UK) and the Bayan Centre for Planning and Strategic Studies (Iraq). In 2016-2017 she consulted on Yemen's War Economy for the UN Security Council where her research was instrumental in mapping funds evasion.

Ms Perez-Shakdam's research focuses on religious, political and security trends in the Middle East with a focus on Iran and its proxies.

She has contributed to major international media outlets, including the BBC, Al Jazeera, VOA, Epoch Times, the Times of Israel

About The Henry Jackson Society

The Henry Jackson Society is a think-tank and policy-shaping force that fights for the principles and alliances which keep societies free, working across borders and party lines to combat extremism, advance democracy, and real human rights, and make a stand in an increasingly uncertain world.

Summary

A leading world economy, Great Britain has long strived to strengthen its institutions to meet its commitments and obligations - driving economic reforms to promote and maintain sustainability, opening markets, ensuring access to resources, and promoting sustainable global growth in view of eradicating poverty in the understanding that only by creating positive business environments in all key markets can a society truly thrive. This of course has been balanced by strong regulations against corruption, without cutting off market access and/or job creation.

For the UK to continue to act as a model and a trusted partner, its officials must often review risks assess economic governance, deliver on economic reforms when needed, work to improve the rules-based international economic system, as well as lift barriers to sustainable development, and promote use of international best practice among communities as well as central and local governments.

Both the US-China Trade War (2018-2019) and the Covid-19 pandemic exposed how disruptions in the supply chain can leave us exposed to economic insecurity, thus justifying a rethink:

1. Our ability to foster good international relations with our trade partners

2. To architect a system which protects our economic integrity – and thus national interests by focusing for example on investment screening, anti-coercion instruments, research integrity, and supply chain resilience.
3. To strengthen our positions towards those, who continue to sow discord, promote unrest, and act the patron of Terror.

As Britain contends with an ever-more sophisticated system of sanctions against the Islamic Republic, the need to respond to illicit and emerging finance has become of grave importance.

Evidence

1. **The Crypto-War, sanctions evasion and national security** - Around 4.5% of all bitcoin mining takes place in Iran, allowing the country to earn hundreds of millions of dollars in cryptocurrencies that can be used to buy imports and lessen the impact of sanctions, a new study has found.¹ On July 13, Tehran-headquartered Mehr News Agency reported that the country's first cryptocurrency issued under permission of the Central Bank of Iran (CBI) is set to be unveiled, to facilitate economic growth and development in the country. At the time Shahab Javanmardi, a member of Iran's Chamber of Commerce and Industries, said that the indigenous digital coin will be mined by a consortium of private Iranian IT firms in accordance with the agreement of the CBI. He claimed that *"the Iranian cryptocurrency is backed by gold, but its function is similar to foreign rivals."* Furthermore, he revealed that *"the domestically encrypted money is to ease optimal use of Iranian banks' frozen resources."* Simply put, the main purpose of any Iranian digital asset will be to bypass the established banking and financial system and thus evade economic sanctions.² Back in 2019 the US accused the Islamic Republic of using bitcoin mining to circumvent sanctions – including Chinese miners, who following a harsh state crackdown had to relocate, in many cases in Iran to benefit from low energy prices and accommodating state officials. Furthermore, the Chinese government is using its private sector to help circumvent sanctions by using the cryptocurrencies mined in Iran to secure trades and architect alternative methods of payment – outside the international financial system. While China outwardly says they do not have any plans for cryptocurrency in Iran, this doesn't seem to have reached the ears of many of its businesses.³ With Iran, Russia, and China building their "blockchain sanctions resistance," it is crucial for the UK and its partners to be in a leading position in this international 'crypto-race'.
2. **Virtual Currency** - Iran's affiliates – those parties forming the infamous Axis of Resistance could pose a national security threat to the UK's economy by deploying VC (Virtual Currency). A report by the Rand Corporation found that non-state actors, including terrorist and insurgent groups will likely seek to increase their political and/or economic power by deploying a VC for use in regular economic transactions. A VC, such as Bitcoin, is a digital representation of value that can be transferred, stored, or traded electronically and is neither

¹ 2021 Elliptic Guide to Sanctions Compliance in Cryptocurrencies - https://info.elliptic.co/coming-soon-sanctions-compliance-in-cryptocurrencies?_hstc=267712218.13c596c2410f248039cbe37608f4d7c4.1658314896578.1658314896578.1658742299557.2&_hssc=267712218.1.1658742299557&_hsfp=812266229

² 16 July 2019, Bitcoin.Com, *Global Crypto War Is Heating up - Iran Next in Line With Its Own Gold-Backed Coin* - <https://news.bitcoin.com/global-crypto-war-is-heating-up-iran-next-in-line-with-its-own-gold-backed-coin/>

³ 8 July 2019, *Iran Caught In Crypto War Between US And China* - <https://www.cryptovibes.com/blog/2019/07/08/iran-caught-in-crypto-war-between-us-and-china/>

⁴ 19 July 2019, FDD (Foundation for Defense of Democracies) *Crypto Rogues - U.S. State Adversaries Seeking Blockchain Sanctions Resistance* - <https://www.fdd.org/analysis/2019/07/11/crypto-rogues/>

issued by a central bank or public authority, nor necessarily attached to a fiat currency (dollars, euros, etc.), but is accepted by people as a means of payment. The deployment of a VC by non-state actors, such as terrorist organizations, insurgent groups, drug cartels, and other criminal organizations, would be easier if supported by a nation-state with advanced cyber expertise – in this case the Islamic Republic of Iran.⁵

3. **Crypto Financial Crimes** -⁶ Dynamic changes in the world processes, particularly in the virtual economy sphere pose challenges to the national security system, especially in reference to the Islamic Republic of Iran, who, for obvious reasons seeks to not only evade sanctions, but destabilise western economies as part of its theo-political ideology.
4. **Crypto for Trade** – Since 2019 the Islamic Republic of Iran has worked on creating a parallel financial structure – secondary forex market⁷. allowing its proponents to trade in cryptocurrencies for their export needs. Local companies buy cryptocurrency from the central Iranian market they can in turn use to settle their import invoices and by-pass sanctions, often via Turkey or Iraq.
5. **Energy Security, Iran and the UK's strategic interests** – Because of the constrained geopolitics and the imperious need to secure Britain's long term strategic energy needs it is paramount to take into consideration the threat the Islamic Republic poses to the UK – especially in the context of the Russian-Ukrainian conflict. We are faced with two realities:
 - a/ indigenous resources (including that of the EU) are declining
 - b/ natural resources are increasingly being held by a handful few countries, making it difficult to achieve diversify. Whilst Iran remains home to vast energy resources, the regime, its increased belligerence, and unwillingness to normalise ties put the UK in a difficult position. Even though the Islamic Republic is under a strict regime of sanctions, Tehran has found ways to still sell its energy resources, defying the rule of law.⁸Iran has long sold its Oil and Gas to China⁹ – teapot refineries¹⁰, or smuggled its energy to neighbouring countries: Iraq, Oman, the UAE¹¹, Syria and Turkey, offering discounts traders have been only too keen to accept.¹²

Example: *“Iran-based Jam Petrochemical Company (JPC) has exported hundreds of thousands of metric tons of petrochemical products, worth hundreds of millions of dollars, to companies throughout East Asia. Many of these products were sold to Iran-based Iran Petrochemical Commercial Company (PCC) for onward shipment to the People's Republic of China (PRC). JPC has aided PCC in facilitating the use of front bank accounts and*

⁵ 2015, The Rand Corporation, Report: *National Security Implications of Virtual Currency* - https://www.rand.org/pubs/research_reports/RR1231.html

⁶ Vovchenko, Natalia G., et al. 'Electronic Currency: The Potential Risks to National Security and Methods to Minimise Them.' *European Research Studies*, Volume XX, Issue 1 2017 pp.36-48
https://www.ersj.eu/repec/ers/papers/17_1_p3.pdf

⁷ 30 December 2020 *Financial Tribune, Iran: Call for Crypto Use to Pay for Imports* - <https://financialtribune.com/articles/business-and-markets/106833/iran-call-for-crypto-use-to-pay-for-imports>

⁸ 11 June 2022, Iran says oil sales strong despite effect of Ukraine war – Al Jazeera, <https://www.aljazeera.com/news/2022/6/11/iran-says-oil-sales-strong-despite-ukraine-war-changes>

⁹ 3rd July 2022, Bloomberg - Iran Slashes Cost of Its Oil to Compete With Russia in China, <https://www.bloomberg.com/news/articles/2022-07-03/iran-slashes-the-cost-of-its-oil-to-compete-with-russia-in-china>

¹⁰ 20 July 2022, United Against Nuclear Iran, Uncovering the Chinese Purchasers of Iranian Oil - <https://www.unitedagainstnucleariran.com/blog/uncovering-chinese-purchasers-of-iranian-oil-updated-july-20-2022>

¹¹ 6 July, 2022, US department of Treasury, Treasury Targets Iranian Oil and Petrochemical Trade Network - <https://home.treasury.gov/news/press-releases/jy0851>

¹² 6 July 2022, Reuters, U.S. Tightens Sanctions on Iran, Targets Chinese, Emirati Firms Over Oil - <https://www.usnews.com/news/world/articles/2022-07-06/u-s-issues-sanctions-related-to-iran-oil>

companies in order to obfuscate the shipment and sale of Iranian origin petrochemicals. By these means, in mid to late 2021, JPC sold hundreds of thousands of metric tons of petrochemicals worth millions of dollars to PCC with the intent to deliver the goods to the PRC and the Philippines.” - US State Department

Since it is virtually impossible to crackdown on every illegal trade, then it stands to reason to take the problem upstream and ensure that Oil sanctions are accompanied by sanctions targeting the technological advancement and development of the Oil industry – thus hampering production and in turn sales.

6. **Money Laundering** – In 2019 UK bank Standard Chartered was ordered to pay \$1.1bn (£842m) by US and UK authorities to settle allegations of poor money-laundering controls and breaching sanctions against countries including Iran. It was also fined £102m by the Financial Conduct Authority for anti-money-laundering breaches that included “shortcomings” in its counter-terrorism finance controls in the Middle East. It is the second-largest fine ever imposed by the UK regulator for anti-money-laundering failures.¹³ Vigilance towards such violations against Britain’s financial integrity remains a priority and as such warrants that more resources be spent towards monitoring.

Recommendation: As financial crimes and sanction evasions mechanisms have become more sophisticated – the emergence of cryptocurrencies and the ease it offers in terms of money movements have somewhat muddied the waters, accentuating the need for if not more stringent oversight, an adaptable and dynamic approach to our monitoring of all financial and trade activities. The UK exists within an economic and financial ecosystem based on the rule of law that demands visibility in order to address violations. Moreover, a more targeted, or rather tactical approach to sanctions would generate better results.

September 2022

¹³ 9 April 2019, ‘Standard Chartered fined \$1.1bn for money-laundering and sanctions breaches’ – The Guardian <https://www.theguardian.com/business/2019/apr/09/standard-chartered-fined-money-laundering-sanctions-breaches>