

Iran's Sour National Mood Could Complicate U.S. Engagement

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Brief Analysis

When it comes to fixing serious problems with the economy, energy, and other sectors, the reformists have been just as ineffective as the hardliners, eroding any legitimacy they might claim to reopen nuclear negotiations with Washington.

As Iranians prepare for Nowruz on March 21—traditionally a season of celebration and shopping—the national mood is sour. The scale of the complaints was on display during Majlis debates on March 3, which led to the dismissal of economic minister Abdolnaser Hemmati by a vote of 182 to 89. Because reformist politicians like Hemmati and President Masoud Pezeshkian have proven unable (or unwilling) to tackle the country's deepest problems, they have become just as discredited as the hardliners. This reality undercuts the country's willingness to listen to reformist proposals about foreign policy, including potential talks with the United States.

Ineffective Reform Efforts

Consider the energy sector. In Tehran, electricity shortages and pollution caused by using heavy-fuel generators have led authorities to close schools for 50 out of 100 days this academic year, while government offices in most provinces have repeatedly closed. Industrial firms have been caught in their own vicious cycle: low energy rates contributed to excessive consumption, which led to hard-hitting cuts in natural gas, heavy oil, and electricity, which contributed to rampant payment evasion, which left energy producers unable to afford upgrading their aging and inefficient facilities and transmission lines. All of these problems are compounded by corruption, especially among prominent firms connected to the Islamic Revolutionary Guard Corps (IRGC). Although Iran's electricity-generating capacity has grown 20% in the past decade, peak demand is up 74%, opening a huge supply gap.

Officials have not taken [even modest steps \(https://www.washingtoninstitute.org/policy-analysis/mismanagement-makes-iran-vulnerable-different-type-us-pressure\)](https://www.washingtoninstitute.org/policy-analysis/mismanagement-makes-iran-vulnerable-different-type-us-pressure) to address these problems. For

example, they complain that gasoline smuggling is exacerbating national shortages and forcing them to maintain expensive subsidies; according to the government, 20 million liters of gasoline per day are taken for resale in countries where prices are higher, and private estimates suggest the problem is far worse. Yet they hesitate to raise gas prices for fear of widespread protests (as happened in 2019), nor have they considered less risky solutions like increasing the monthly gas ration cards issued to car owners while mandating that they pay full market price for any additional consumption.

On the economic front, many Iranians look to the free-market exchange rate as an indicator of how things are going. A decade ago, that rate was 32,000 rials per dollar; today, it is a whopping 930,000. The average annual devaluation of 40.1% owes much to inflation, which has averaged 27.7% per year and is exacerbated by the massive government deficit (itself a function of lower oil income and high off-budget spending). To wit: someone who converted 1,000 rials into dollars in 2015 and held on to those dollars could convert them back into 29,000 rials today. Even after adjusting for inflation, that amount would be worth about twice the rials spent a decade ago. No wonder Iranians—who cannot find dollars to buy on the free market—are on track to purchase more than 500,000 gold coins this year (a traditional hedge against inflation, sold by the Central Bank at auction prices up to 30% higher than their intrinsic metal value). These and other examples of incompetence by self-styled technocrats have led many to question whether they know what they are talking about, including on foreign policy.

Impact of U.S. Pressure

Iranian politicians have been talking tough about bearing the pain of U.S. pressure. During the Majlis debate about Hemmati, Pezeshkian defended his minister by arguing that Iran is in the midst of “all-out war” with the United States, claiming that the 1980s war with Iraq “was nothing” in comparison. Yet he offered no proposals for alleviating U.S. pressure. In response to accusations that he was planning new talks with Washington, he stated, “When the Supreme Leader said we don’t negotiate with the United States, I announced we won’t negotiate with the United States. That is the end of the story.” Indeed, even rumors of being in favor of U.S. talks could prove toxic for Iranian politicians in the current climate. The same day Hemmati was dismissed, Vice President Mohammad Javad Zarif—who served as foreign minister during the 2015 nuclear negotiations—resigned after judiciary chief Qolam-Hossein Mohseni-Ejei advised him that this was the best way “to prevent more pressure on the government.”

To a certain extent, the pain is real. As Pezeshkian acknowledged to the Majlis, Iranian oil tankers are “struggling to offload shipments” abroad, mostly due to tougher U.S. enforcement of existing sanctions against the Very Large Crude Carriers (VLCC) that Iran uses to export most of its oil. In addition, the 2024 Stop Harboring Iranian Petroleum (SHIP) Act authorized new sanctions on entities that facilitate Iranian oil trading and financing.

Yet traders have simply found more ways to circumvent U.S. restrictions and feed the large appetite that some Chinese importers show for cheap Iranian oil. A few months ago, China’s state-owned Shandong Port Group banned U.S.-sanctioned tankers from using its ports. Yet many Iranian tankers found other places to dock, such as Huizhou Port in the south. Although total Chinese imports of Iranian oil dropped from 1.57 million barrels per day last December to 847,000 barrels in January, they appeared to rebound a month later.

On February 4, President Trump signed [National Security Presidential Memorandum 2](https://www.whitehouse.gov/presidential-actions/2025/02/national-security-presidential-memorandum-nspm-2/) (<https://www.whitehouse.gov/presidential-actions/2025/02/national-security-presidential-memorandum-nspm-2/>), which included orders for “enacting maximum pressure on the Islamic Republic of Iran.” Experts often quip that Iran does not respond to pressure—it responds to great pressure. In general, they mean Washington must prove that it is not “sanctioned-out” by continually taking more new actions like the following:

- **Designate more VLCCs.** There are only so many of these vessels in the world; sanctioning more of them could drastically reduce Iran’s export options.

- **Use the SHIP Act’s expanded toolset to pressure ports** that accept sanctioned ships.
- **Pressure more Chinese banks.** Although the small Chinese “teapot” refineries (<https://www.reuters.com/world/china/china-teapot-refiners-halt-plants-new-fuel-tax-bites-sources-say-2025-01-27/>) that buy Iranian oil have found small banks willing to work with them, those banks need working relationships with larger banks to function effectively. In most cases, the larger banks are vulnerable to U.S. sanctions, so applying such pressure could spur Beijing to protect the bigger fish by cracking down on the smaller fish.
- **Use carrots and sticks with the United Arab Emirates.** Firms based in the UAE have repeatedly served as intermediaries in Iran’s oil sales. Sanctioning these firms is one option. In other cases, Washington can offer to help Emiratis collect the awards that the Hague-based Permanent Court of Arbitration has ordered the National Iranian Oil Company to pay after its failed deal (<https://casetext.com/case/crescent-petroleum-co-intl-v-natl-iranian-oil-co>) with Crescent Petroleum—\$3.4 billion so far, with more likely coming.
- **Help Europe follow through on “snapback.”** Britain, France, and Germany recently warned that if there is no new nuclear deal by summer, they will trigger the UN “snapback” mechanism, which would renew sanctions against more than 300 Iranian entities. Under the Security Council resolution supporting the 2015 nuclear deal, snapback is automatic if any of those three member states request it before October 18—that is, China and Russia cannot veto it. Washington and Europe should also make clear to Iran exactly how they would press governments around the world to enforce those sanctions.

To be sure, no course of action offers a magic bullet because Iran will inevitably take countermeasures; all Washington and its partners can do is prepare for the regime’s most likely moves. For instance, as more tankers, ports, and banks are sanctioned, Tehran would presumably try to maintain its oil income by escalating its deception tactics, including ship-to-ship cargo transfers, covert blending operations, and financial arrangements that avoid banks (e.g., barter trade and cryptocurrency transactions). In the event of snapback, the regime may also decide to take provocative nuclear steps such as enriching uranium to 90% (<https://www.washingtoninstitute.org/policy-analysis/infographic-visual-guide-understanding-uranium-enrichment-process>) (“weapons grade”) and/or leaving the Nuclear Nonproliferation Treaty (NPT). To deter or mitigate these steps, Washington and its partners should maintain escalation dominance (<https://www.foreignaffairs.com/iran/last-chance-iran>) by responding to each Iranian provocation with a stronger reaction.

On one hand, U.S. options for applying “maximum pressure” are more limited today than during the first Trump term, when withdrawing from the nuclear deal led to a sharp drop in Iran’s oil income and reduced European enthusiasm about doing business with the Islamic Republic. On the other hand, Iran’s economy is now in much worse shape than it was back then, with higher inflation, lower GDP growth, and major electricity and gasoline shortages. This means additional U.S. pressure would be felt all the more keenly by the Iranian people, who are already in a deeply sour mood.

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