BOURSE & BAZAAR FOUNDATION

New Options for Addressing the Most Serious Negative Humanitarian Consequences of Sanctions*

Overview of U.S. Sanctions on Iran

The U.S. imposed sanctions on Iran in late 1979 after Iranian students occupied the U.S. embassy in Tehran, taking 66 diplomats and personnel hostage. Iranian imports to the U.S. were banned and more than $12 billion in Iranian assets held in U.S. accounts was frozen. Sanctions were broadened in 1984 when the U.S. Department of State designated Iran a state sponsor of terrorism. Since then, U.S. sanctions via Congressional legislation and Presidential Executive Orders have been imposed dozens of times, while other U.S. sanctions are part of implementing United Nations Security Council resolutions.

In 2012, the Obama administration deepened these coercive measures by imposing strict financial sanctions on Iran, effectively cutting off Iranian banks from the global financial system that, in turn, shut down the country's oil exports and deprived the government and the economy of substantial revenues. These measures served as a major exogenous shock to the Iranian economy, which fell into its first contraction in nearly 20 years.

After a brief period of multilateral sanctions relief related to the implementation of the 2015 Joint Comprehensive Plan of Action (JCPOA), the Trump administration reimposed U.S. sanctions in 2018, moving unilaterally to place Iran's economy under "maximum pressure." The magnitude of the 2012 and 2018 economic shocks and the decade of economic stagnation that they underpin reflect a wide range of mechanisms by which sanctions hampered economic growth, complicating and constricting the flow of goods and capital on which developing economies depend. The sanctions also exacerbated the mismanagement and inefficiencies that are characteristic of economies in countries like Iran.

By focusing on the single most dynamic mechanism—inflation—that made basic goods, including food and medicine, both less affordable and less available, this study traces the connection between the macroeconomic impact of sanctions and the diminished welfare of households. The analysis shows that sanctions had specific impacts on Iran's finances and supply chains that, in turn, served to induce persistent high inflation. Dislocations in the global economy of medical supplies caused by the COVID-19 pandemic intensified inflated prices, including the cost of health care by 67 percent. By tracing these impacts, and by citing the accounts of the goals specified by key American policymakers, this analysis

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conceptualizes sanctions as an "inflation weapon" that caused significant hardship in the general economic well-being of ordinary Iranians, and especially in areas of food and medical supplies when they were most needed due to the pandemic.

Sanctions as obstacles to humanitarian assistance

Current sanctions restrict the Iranian government revenues and available assets of the Central Bank that, in combination, with the still existent Trump administration maximum pressure rules, continue to cause direct and indirect negative impacts on the well-being of average Iranians. These sanctions continue to obstruct humanitarian relief in particular ways:

1. **Contribute to the diminishing welfare of Iranian citizens.** Alongside rising prices, sanctions served to disrupt the supply chains on which the importation and domestic production of humanitarian goods depend. Even though transactions with designated entities were permitted to facilitate trade in humanitarian goods, in practice the designations still served to diminish delivery and trade, partly due to pandemic dislocations but also to a growing lack of confidence in Iran's ability to make payments. In sum, the sanctions succeeded in increasing prices, disrupting supply chains, decreasing the value of the Iranian Rial, increasing poverty rates, stagnating real wages, and increasing the poverty gap.

2. **Inflation was both the purpose of and created the severe impact of financial sanctions, making Iran a singular and successful case of "weaponized inflation."** The sanctions constrained government revenue leading to budget deficits that needed to be financed through printing money, which escalated inflation, as did devaluing Iran's currency. Although no sanctions were imposed on food imports, this drop in the Rial seriously affected the affordability of food. Because the Central Bank did not have clear access to foreign exchange reserves, it could not meet the demand to provide hard currency to importers of the tons of animal feed on which the production of meat, eggs, and dairy products depends. Despite government subsidies, food prices still tripled due to inflation caused by these constraining currency problems. Iranian wages remained steady at best but faced declining purchasing power.

3. **Additional hardship came from structural damage to manufacturing, producing, and importing goods critical to Iran's dairy, meat, and medical production.** Sanctions served to disrupt the supply chains on which the importation and domestic production of humanitarian goods depend. Few logistic companies continued to serve Iran following the imposition of sanctions and even fewer banks proved willing to facilitate the payments on behalf of Iranian importers. Commodities traders shied away from supplying the Iranian market. Prices of commodities increased as a result of supply contraction, but also because of additional shipment costs as charter companies applied demurrage charges while their cargo vessels remained anchored in the Persian Gulf awaiting payments to clear.

4. **Contribute to negative impact on health sector, especially during the COVID-19 pandemic.** Disruptions to supply chains exposed a major deficiency in the approach to humanitarian exemptions within the U.S. sanctions program. Due to the complexities of running even routine humanitarian trade, Iranian medical goods importers found themselves at the back of the line in securing supplies of face masks, medical gowns, and other protective equipment when they experienced one of the first major outbreaks after China and Italy. Importers failed to cultivate relationships with new suppliers because setting up logistics and payments solutions to get goods into Iran can take months and suppliers were so overwhelmed with requests that they fulfilled orders from countries that were easiest to supply.

Moving beyond punitive sanctions to a humane and incentive-based approach

In 2018, after a brief period of sanctions relief related to the implementation of the JCPOA, the U.S. reimposed its sanctions program, placing Iran's economy under "maximum pressure" sanctions. If the Biden administration chooses to change course, important work must be done to make sanctions less harmful. On one side, sanctions proponents understand that the political utility of sanctions depends in large degree on the perception that they can be targeted. On the other side, opponents understand that sanctions are here to stay as a tool of American statecraft—and so harm minimization is the realistic goal of advocacy.

A need exists to transform sanctions from a weapon and punitive tool into a tool that provides incentives to leaders and governments to carry out reforms. The JCPOA and Iran's willingness to negotiate in 2015 was a positive indicator that the country, if presented with incremental sectoral sanctions adjustment with verifiable positive steps, will come to agreement with other world leaders to curb their nuclear activities. Can Iran and the U.S. put in place the same logic and dynamic application after the economic damages to Iran and changed politics in each nation in 2021?

Because many aspects of sanctions relief and repair are yet to be resolved bilaterally between Iran and the U.S. in their negotiations about the JCPOA, this report concludes with modest suggestions for U.S. actions to reform sanctions with a view to minimizing the humanitarian harms that have been suffered by the Iranian people. Specific steps that could be taken include:

1. **A recognition by the U.S. that the COVID-19 pandemic calls for extraordinary measures of sanctions suspension considering the complexities and unintended impact on the Iranian medical sector.** This could take various forms, but it should be solutions oriented toward considering the supply chain and pricing disasters outlined above. Such action would also follow the humane precedent set by prior U.S. presidents who responded to Iran's dire situation after earthquakes. President George W. Bush suspended sanctions in December 2003 and had significant medical goods and personnel sent to Iran. In August 2012, President Barack Obama authorized the Treasury Department to fast-track licensing for NGOs to transfer $300,000 of relief supplies to Iran.

2. **Efforts to minimize the humanitarian harm of sanctions must grapple with the devastating consequences of inflation.** Due to the global dominance of the dollar and through effective monitoring of Iranian inflation—as well as the value of the Rial in international currency markets—the U.S. could establish and act on keeping the level of inflation below a certain threshold considered too painful for civil society. Sanctions would still impose a cost on the government, but that cost would be subject to controls and would be less inherently destructive. For example, U.S. policymakers might aim to push annual inflation in the target country to 20 percent—but they would not seek to induce the kind of hyperinflation that can precipitate the kind of economic collapse seen in countries such as Venezuela.

3. **Restoring Iranian Government subsidies for food and medicine could be facilitated by a managed international oil sale, the proceeds of which would be used for such subsidies.** This arrangement could be monitored by third-party governments acceptable to both the U.S. and Iran, or by an international humanitarian agency.

4. **If an agreement can be reached between the U.S. and Iran that eases sanctions in exchange for nuclear reduction guarantees, the U.S. should incentivize U.S. businesses, banks, and those of allies to engage with the Iranian economy free of worry about its economic stability from sanctions.** The U.S. can end "the chilly climate" cast over the Iranian economy and stimulate de-risking and new trade, investment, and economic engagement with Iran.