

Dual Pressures on Iran

US Sanctions amid the Coronavirus Pandemic

A study by David Jalilvand



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Edited by the Heinrich Böll Foundation

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CONTENTS

Foreword	7
Overview	9
Introduction	12
1 Iran before the Pandemic: Sanctions and Crisis	14
1.1 Sanctions and Washington’s policy of «maximum pressure»	16
1.2 Europe and US sanctions: From reluctant opposition to a new trans-atlantic unity	20
1.3 Iran’s economy: Between recession and resilience	24
2 Sanctions and the Iranian Healthcare System	34
2.1 Sanctions and restrictions on humanitarian trade	35
3 The Coronavirus Crisis in Iran	40
3.1 Sanctions and the pandemic	44
3.2 Sanctions and international coronavirus aid	48
Bibliography	50

Figures and Boxes

Figure 1: Recent results of opinion polls (October 2019)	15
Figure 2: Annual growth of Iran's real GDP	25
Figure 3: Iran's foreign trade	27
Figure 4: Iran's trade with the EU-28	27
Figure 5: Iran's trade with China, India, Russia, and Turkey	28
Figure 6: Floating exchange of the Iranian rial (IRR) to the US dollar	28
Figure 7: Iran's inflation rate	29
Figure 8: Consumer price index (total)	30
Figure 9: Share of non-oil GDP in total GDP	31
Figure 10: Iran's non-petroleum exports	33
Figure 11: Iran's imports of pharmaceutical products by region of origin	38
Figure 12: EU28 exports of pharmaceutical products to Iran	39
Figure 13: New coronavirus infections and deaths in Iran	41
Box 1: Instrument in Support of Trade Exchanges	21
Box 2: Iran's new confrontational foreign policy	22

Abbreviations

EU	European Union
EUR	euro
FATF	Financial Action Task Force
GDP	gross domestic product
IMF	International Monetary Fund
INSTEX	Instrument in Support of Trade Exchanges
IRR	Iranian rial
JCPOA	Joint Comprehensive Plan of Action
SHTA	Swiss Humanitarian Trade Agreement
UAE	United Arab Emirates
UN	United Nations
USD	United States dollar
WHO	World Health Organization

FOREWORD

When they are not embedded in a clever diplomatic strategy, economic sanctions can have unintended consequences. In Iran, for instance, the US sanctions currently in place amid the coronavirus crisis have given the authoritarian rulers the opportunity to obscure their own failures of leadership.

This study by David Jalilvand investigates this issue and answers the question: how have the US sanctions that were reactivated in 2018 influenced the socio-economic situation and state of medical care in Iran amid the coronavirus pandemic? Where the data allow it, it also investigates whether and how marginalized groups (for example women) are differently affected.

The calculus behind the US sanctions follows a well-known logic, according to which a civilian population will revolt and ultimately topple an undesirable regime if only the suffering is great enough. However, like other authoritarian regimes, the Iranian leadership has used ruthless repression and brutal violence to suppress the population's massive dissatisfaction. As long as sanctions fail to adversely affect the personal economic and power-political interests of the Iranian leaders – as «targeted» or «smart» sanctions do – they will not bring about a change in behavior.

Iran's rulers are demanding an immediate end to US sanctions. Iranian Foreign Minister Mohammad Zarif pithily branded them as «healthcare terrorism» against the Iranian people as Iran quickly became a hotspot for the pandemic in the region – not least because of the miserable management of the Iranian leadership, who initially played down the dangers of the coronavirus and then neglected to appropriately protect the population.

We present this study as an important contribution to the current debate on the humanitarian questions connected with sanctions in the age of the pandemic – questions that may once again become more relevant. For if the nuclear deal fails, the question of which strategy Germany and Europe should pursue vis-à-vis Iran will once again be an open one. Whether and how sanctions can play a constructive role in this context will be a central issue in the discussions about policy options for controlling the Iranian nuclear program in the future.

For a good twenty years, the Iran program at the Heinrich Böll Foundation has engaged with the Iranian nuclear program through various formats, and it aims to continually provide nuanced, well-founded content in this polarized debate, e.g. the monthly Iran-Report, public events, or technical discussions in line with Track II diplomacy.

Our sincere thanks go to the author, Dr. David Jalilvand, who in this study presents his comprehensive expertise on socio-economic questions in Iran with impressive thrust, accuracy, and political balance.

Berlin, August 2020 (updated in March 2021)

Dr. Anja Hoffmann

Heinrich Böll Foundation

Senior Programme Officer North Africa and Iran

Overview

- 1) *Although the Biden administration is pursuing a return to the nuclear agreement, the comprehensive US sanctions regime against Iran remains in effect (as of March 2021).*

In its first weeks in office, the new US administration took no steps to effectively loosen the sanctions, for example creating a robust legal framework for humanitarian trade with Iran. For the time being, it remains unclear whether – and when – the nuclear deal can be revived.

- 2) *The previous administration, under President Trump, aimed to achieve two intermediate goals with its policy of «maximum pressure»: first, to weaken Iran as much as possible; second, to prevent future administrations from returning to the deal.*

After withdrawing from the nuclear deal in May 2018, the United States imposed sanctions on nearly every sector of the Iranian economy. The sanctions aimed not only to deny Iran foreign trade opportunities and foreign exchange revenue – Washington also attempted, to a greater degree than in the past, to bring Iran’s domestic economy to its knees. The US sanctions regime was significantly expanded to this end. It was unclear what the Trump administration’s ultimate goal was: Both regime change and a new agreement with Tehran appeared to be within the realm of possibility.

- 3) *Europe still lacks a robust legal framework and appropriate instruments required for legal economic relations with Iran. This affects humanitarian trade as well.*

In August 2018 the European Union (EU) reactivated its Blocking Statute, which in practice is not an effective means of maintaining trade between Europe and Iran. Since European businesses had been withdrawing en masse from Iran, Germany, France, and the United Kingdom founded the special purpose vehicle Instrument in Support of Trade Exchanges (INSTEX) in January 2019. By setting up a clearing house, INSTEX is meant to make it possible for European firms to do business with Iran without involving the US financial system. As it is provisionally limited to humanitarian trade, INSTEX does not enable the circumvention of US sanctions and will not do so until further notice. Moreover, regular business operations have yet to begin. Iran is now trying to raise the price of US sanctions by violating the nuclear deal and fueling regional tensions. Europe lacks the ability break the escalation spiral between Tehran and Washington.

- 4) *Iran has suffered enormous economic damage due to US sanctions. All in all, however, the Iranian economy has proven to be relatively resilient.*

Two years of clear growth (2016–17) were followed by a longer period of recession. This was accompanied by a collapse of foreign trade and especially petroleum exports, growing trade deficits and balance of payment deficits, a devaluation of the rial, and a marked increase in inflation. For Iran's population, the result was a dramatic loss in purchasing power. The resilience of the Iranian economy is rooted in its comparatively advanced state of diversification, which is reflected in increased exports of domestically manufactured products.

- 5) *US sanctions restrict Iran's access to complex medications and pharmaceutical ingredients. They have led not only to shortages but also to significant cost increases for pharmaceutical imports, due to both higher transaction costs and the dramatic devaluation of the rial.*

Iran's import dependence regarding certain complex medications is the Achilles' heel of the Iranian healthcare system, which, by regional standards, is highly developed and supported by a broad-based pharmaceutical industry. Iran was able to maintain the basic supply of medication despite the sanctions. Yet, the sanctions did at times lead to major shortages of – and higher prices for – a number of complex essential medications, for example for the treatment of epilepsy and leukemia. The US administration now acknowledges that it failed to create sufficient legal certainty for humanitarian trade – which is nominally exempted from the sanctions regime, though this exemption has not, in practice, led to any effective policy changes. Since Iran obtains four-fifths of its pharmaceutical imports from the European Economic Area and Switzerland, Europe is particularly affected.

- 6) *The coronavirus has hit Iran as hard as almost any other country, in part because of blatant mismanagement by government agencies. The pandemic has set Iran back significantly in its efforts to overcome the sanctions-related recession.*

Within just a few days, Iran became the epicenter of the coronavirus pandemic in the Middle East, and it is now facing a fourth wave of infections. The political leadership in Tehran played down the dangers of the pandemic for weeks. Some leading politicians even circulated conspiracy theories. After a temporary national «lockdown» in March, the government began imposing targeted restrictions as needed. Iran suffered a further year of recession in 2020 (a 5 percent fall in gross domestic product – GDP) due to the coronavirus crisis. The pandemic achieved something that US sanctions largely could not: a noticeable weakening of the domestic Iranian economy.

- 7) *US sanctions influenced the course of the coronavirus pandemic in Iran: They compromised the supply of goods for medical use, interfered with considerations of anti-coronavirus measures, and weakened Iran's ability to address the economic consequences of the virus.*

In the first weeks of the pandemic, Iran declared that it was suffering from a shortage of medical goods required for the management of the crisis; sanctions

were exacerbating difficulties with procurement. After reorienting its domestic production, Iran declared in May 2020 that it had achieved complete self-sufficiency. Yet, by the start of 2021, sanctions were hindering Iran's ability to procure vaccines. Iran's significant economic weakness after two years of sanctions also affected Iran's choice of anti-coronavirus measures: The leadership in Tehran was eager to avoid further socio-economic hardships and political tensions. Moreover, following years of sanctions-induced recession, Iran had fewer resources to launch stimulus measures to address the economic consequences of the coronavirus.

- 8) *The issue of international assistance with regard to the pandemic remains a touchy subject. Sanctions are holding Iran back in this area. The question of help from abroad is also the subject of domestic power struggles in Tehran.*

Iran took the coronavirus crisis as an opportunity to make the case for a relaxation of the US sanctions regime on the international stage. In the meantime, various bi- and multilateral aid deliveries have reached Iran. With regard to the question of an emergency IMF loan for Tehran, which the United States blocked for evidently political reasons, US sanctions policy clearly had a negative effect. In Iran, the continuation of the power struggle over emergency humanitarian aid between the Rouhani government and his opponents from the Revolutionary Guard has left potential international donors with questions about the seriousness of Iranian requests.

Introduction

When the coronavirus pandemic reached Iran, it struck an already beleaguered country. US sanctions had taken a heavy toll on the economy and further deepened the socio-economic crisis. In the wake of the sanctions, the political tensions within the Islamic Republic once again came to the fore.

For a long time, Iran's political leadership underestimated the virus, only reacting when the emergency in the country made far-reaching measures unavoidable. Iran became the epicenter of the pandemic in the Middle East within just a few days.

Yet, once the political authorities eventually took action, the sanctions again made their presence felt. The US policy of «maximum pressure» has degraded Iran's ability to address the pandemic: US sanctions have limited Iran's access to medical protective gear, medications, and resources for the pharmaceutical industry, for example. And the precarious state of the economy due to the sanctions was, in turn, a factor in the Iranian state's hesitation to intervene in public life: There was great fear of the consequences of far-reaching contact restrictions. Weakened by the sanctions, Iran has fewer resources to manage the consequences of the pandemic.

This clearly distinguishes Iran's underlying conditions from those of other countries. The major challenges and uncertainties of the pandemic come on top of, and aggravate, the restrictions associated with the sanctions regime.

The following text analyzes how the sanctions impair Iran's ability to handle the coronavirus pandemic. To this end, it first discusses US sanctions' impact on politics and the economy as well as the Iranian healthcare system. It then puts into context the meaning of the sanctions with regard to the coronavirus crisis in Iran.

This study explicitly does not seek to distract from the responsibility of Iranian political actors or to relativize their behavior. The Iranian authorities bear primary responsibility for the rapid spread of the coronavirus within the country, especially in the early phase of the pandemic. Their dramatic underestimation of the dangers of the pandemic as well as the spreading of conspiracy theories by top politicians led to the loss of valuable time that could have been used to break chains of infection. The politicization of vaccine procurement also undermined efforts to contain the pandemic.

And yet, setting this aside, it is nevertheless clear that the sanctions have led to a significant deterioration of the humanitarian emergency in Iran. This was true even before the outbreak of the coronavirus crisis – the pandemic then led to damage on a higher scale. It is therefore important to analyze the dynamics and effects of US sanctions policy with regard to the humanitarian situation, not only to better understand the conditions in the country but also as a starting point for developing political measures to alleviate the hardship of the Iranian people. This is all the more true now that

the arrival of a new administration in the United States has potentially opened the door for a new, more constructive relationship between Iran and the United States.

1 Iran before the Pandemic: Sanctions and Crisis

Iran was already in crisis mode before the coronavirus pandemic. The far-reaching sanctions imposed against Iran by the United States in 2018 had driven the economy into a deep recession. This was accompanied by a major trade deficit, a devaluation of the Iranian rial, and a rapid rise in inflation. Thus, the economic situation of many Iranian households, whose purchasing power was rapidly declining, had deteriorated significantly.

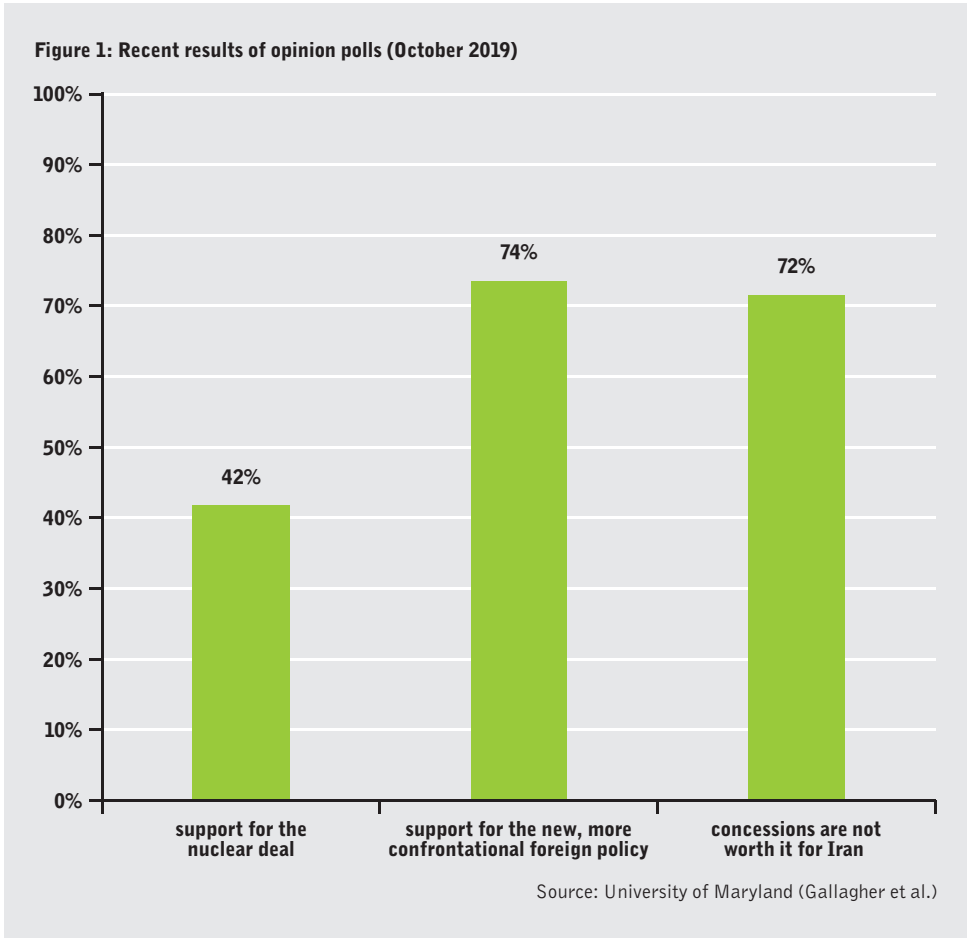
The socio-economic situation intensified and protests increased, mostly carried out by specific social groups, such as merchants, teachers, and truck drivers. Taken as a whole, the protests expressed widespread dissatisfaction with the country's economic situation as well as the corruption and mismanagement of state agencies. Following a cut in energy subsidies in November 2019, the initially sporadic protests culminated in nationwide demonstrations. The state responded to them with extreme harshness, even by the standards of the Islamic Republic. Security forces killed hundreds of Iranians, while the shutdown of the internet largely cut off the population from the outside world for multiple days.

Along with increasing state repression, the economic downturn deepened Iran's political crisis of legitimacy.¹ This weighed all the heavier because core supporters of the Islamic Republic – from the milieu of the religiously conservative petty bourgeoisie – were now in the streets, too, openly expressing their displeasure with conditions in the country. The crisis intensified due to the increasing power struggles between the political camps and institutions of the state. The more radical forces, which knew that momentum was on their side in the wake of the failed engagement policy of President Hassan Rouhani, set about expanding their power. The legitimacy crisis was exacerbated once again in January. Just when it appeared that the killing of Iranian General Qasem Soleimani by the United States had opened a door for a moment of national unity, tensions rose again: In connection with Iran's attempted retaliation, the Revolutionary Guard shot down a Ukrainian passenger jet near Tehran, killing 167 people. The state tried to cover this up for multiple days; again there were protests, though smaller than in November.

The causes of Iran's crisis can be found first and foremost in the country itself. These include an authoritarian political system; economic policies of the Rouhani government that are based on neoliberal considerations and largely ignore social

¹ One expression of the legitimacy crisis was the low participation rate in the parliamentary elections, the lowest ever even according to official figures.

issues; mismanagement, corruption, and incompetence in the management of the numerous state-owned and semi-state-owned enterprises; a deficient legal system with regard to internationally established norms and procedures (e.g., when it comes to standards in the banking sector or measures against money laundering and corruption), and the continuing structural discrimination against women and migrants, especially from Afghanistan.



In combination with these internal factors, however, US sanctions played a decisive role. They brought about a turnaround that will presumably shape Iran's fate for some time to come. Economically, the sanctions brought an abrupt end to the boom years that began with the agreement of the nuclear deal. Politically, they doomed to failure the Iranian attempt at a foreign policy aimed at accommodation and understanding. The more moderate forces in the Islamic Republic were put on the back foot, presumably for years to come.² Societally, the sanctions not only exacerbated the

² Zamirirad (2019).

socio-economic situation as described above; they also caused the Iranian population to doubt the value of diplomatic arrangements. At the same time the positions of the radicals found a more receptive audience: In 2019, for the first time ever, a majority of Iranians expressed their opposition to the nuclear deal. In October 2019, seven of ten Iranians were convinced that their experience with the nuclear deal showed that it is not worth it for the country to make concessions. Similarly, seven of ten preferred economic autarky to increased international trade. Three-quarters of the population, meanwhile, supported the country's new, more confrontational foreign policy, which Tehran has been pushing since May 2019 (Figure 1).³

Against this background, the next section of the report analyzes US sanctions policy as well as the European reaction to it. It is followed by a discussion of the effect of the sanctions on the Iranian economy.

1.1 Sanctions and Washington's policy of «maximum pressure»

On May 8, 2018, US President Donald Trump announced his country's unilateral withdrawal from the Vienna nuclear agreement of 2015, the Joint Comprehensive Plan of Action (JCPOA). The withdrawal marked the kick-off of a policy of «maximum pressure» against Iran, whose first step was the successive reimposition of all unilateral US nuclear sanctions.⁴ Numerous further sanctions followed, and these eventually targeted even Iranian Foreign Minister Mohammad Javad Zarif, whom Washington accused of supporting terrorism.

The United States currently sanctions nearly all sectors of the Iranian economy (despite a basic interest in returning to the JCPOA, the Biden administration has not lifted any sanctions at the time of writing). The Trump administration tried not only to deny Iran foreign exchange revenue, which Tehran had primarily earned through petroleum exports, but also to slow down the domestic economy to a much greater degree than the Obama administration had before the nuclear deal.

To this end, the Trump administration expanded the Obama administration's sanctions, which already targeted the automotive industry, the gemstone industry, the energy industry, the financial sector, shipping and shipbuilding, and (international) trade in the Iranian rial. Sanctions now apply also to the construction industry, the mining industry, the IT industry, the metal industry, the mineral industry, the textile industry, and the manufacturing industry. Logistical support and insurance services for these industries are forbidden as well. Independent from the JCPOA – and aimed more at Iran's military capabilities than at the economy – there continue to be various sanctions in effect as part of a unilateral US weapons embargo. Beyond sector-specific designations, the United States has also imposed sanctions on grounds of human rights violations and terrorism on numerous Iranian entities, including the revolutionary leader of the country, Ali Khamenei. And in April 2019 the US government

³ Gallagher et al. (2019).

⁴ In addition to nuclear sanctions, various multi- and unilateral sanctions were imposed on Iran over the past several decades due to human rights violations and anti-terrorism measures; these were unaffected by the JCPOA.

designated the Iranian Revolutionary Guard as a terrorist organization, marking the first time that a part of the armed forces of a nation recognized under international law has been classified as such.⁵

Agriculture and pharmaceuticals are the only sectors that are firmly exempt from the US sanctions regime in nominal terms.⁶ This exemption is meant to enable humanitarian care. However, there is no robust legal framework in place, so these sectors are also de facto affected by the US sanctions regime (see below). Leading US officials have made public threats of an «economic collapse,»⁷ which would inevitably have consequences for the state of humanitarian care in Iran.

Most of the US sanctions are so-called secondary sanctions, which primarily target citizens and organizations from third countries. Thus, Washington is trying to impair Iran's foreign economic relations in their entirety. US trade with Iran is marginal in any case, since US citizens and organizations are forbidden from taking part in trade and investment with the Islamic Republic. The United States enforces secondary sanctions by threatening harsh penalties. Banks have been ordered to pay substantial fines in the past, in some cases amounting to several billion US dollars.⁸

Therefore, firms are often forced to choose between the US market and the Iranian market. Yet, even firms that do not do business in the United States are often exposed to US sanctions, since these firms are reliant on banks and insurers for whom access to the US financial system is essential.

Remarkably, there was widespread uncertainty about the Trump administration's goals with regard to comprehensive sanctions on Iran. US Secretary of State Mike Pompeo presented Tehran with a list of 12 demands in May 2018. These included, among other things, the unconditional abandonment of all uranium enrichment, the closure of the heavy water reactor in Arak, unrestricted international inspections of the entire country (including all military facilities, even those used for the nuclear program), and the cessation of the ballistic missile program. Iran, Pompeo demanded, should generally behave like a «normal nation.»⁹

There is much to suggest that these demands were merely a pretext to justify the JCPOA withdrawal and the policy of «maximum pressure» to the outside world. After all, if Iran were to meet these demands, it would be tantamount to giving up state sovereignty in numerous sensitive areas (such as inspections of military installations and the cessation of the missile program).

The ultimate goals of the United States under Trump were thus unclear, not least because his administration was sending conflicting signals. Based on his own State Department's far-reaching demands for the cessation of the «maximum pressure» policy, Secretary of State Mike Pompeo was said to have ambitions for regime change

5 Katzman (2020).

6 People and organizations in these sectors are also subject to sanctions on an individual basis, for example because of links to the Revolutionary Guard.

7 US Department of State (2020).

8 Katzman (2020, p. 30).

9 US Department of State (2018).

in Tehran.¹⁰ One of those to openly represent this position was John Bolton, who, as National Security Advisor, had been an influential figure with regard to Iran policy until his firing in September 2019. «The declared policy of the United States should be the overthrow of the mullahs' regime in Tehran,» Bolton emphasized in July 2017, eight months before he became Trump's National Security Advisor. Significantly, Bolton spoke these words at a meeting of the People's Mujahedin Organization of Iran, a militant sectarian opposition group in exile that had been listed as a terrorist organization by the United States until 2012. The Trump administration even characterized the People's Mujahedin as a «viable alternative» to the Islamic Republic.¹¹

Donald Trump himself, on the other hand, declared publicly that his country was not pursuing regime change in Iran.¹² Rather, the US president seemed to indeed be primarily concerned with preventing Iran from acquiring a nuclear weapon.¹³ To this end, he wanted «a deal» with Tehran – the shape of which was not outlined.¹⁴ In fact, toward the end of Trump's term, senior US officials did indicate that they were merely applying maximum pressure to get Iran to negotiate, and that the United States was ready to talk «without preconditions.»¹⁵

The high turnover of senior officials in the Trump administration caused further confusion. Within one term, the cabinet contained two foreign ministers, three defense ministers, and four national security advisers.¹⁶

Although the strategic objectives of US policy remained unclear, an important goal did become clear. The Trump administration used every possible means to make it as difficult as possible for future administrations to return to the JCPOA. It sought to build a «wall of sanctions»¹⁷ out of a range of maximally complex sanctions imposed on the grounds of numerous different offenses, such as support for terrorism, the missile program, human rights violations, and corruption. The aim was to make it as difficult as possible for future administrations to unwind the sanctions regime.

On this issue, the Trump administration was prepared to be confrontational on the international stage. The United States tried, in vain, to extend indefinitely the United Nations (UN) weapons embargo against Iran, which expired in October 2020 under the Security Council decision on the JCPOA. Secretary of State Pompeo threatened unabashedly in this context to use the veto power of the United States to force the reimposition of all the internationally binding UN nuclear sanctions that had been in place until 2015.¹⁸ This so-called snap-back would not only have meant the de facto end of the JCPOA, but also seriously undermined the authority of the UN

10 Rezian (2019).

11 Slavin (2019b).

12 Kranish (2019).

13 On the merits, this raises the question of why President Trump withdrew the United States from the JCPOA, which addresses this very issue, and calls the agreement the «worst deal ever.»

14 Trump (2020).

15 Wong (2019).

16 Slavin (2019a).

17 According to an influential lobbyist; see Dubowitz (2019).

18 Radio Farda (2020c).

Security Council – presumably with profound consequences for multilateral diplomatic arrangements far beyond the case of Iran.

Trump's Iran policy ended with two intermediate goals: On the one hand, Iran should be weakened as much as possible, initially economically and then also socially and politically. On the other hand, a return to the JCPOA should be prevented, making it nearly impossible for a future administration to reach diplomatic arrangements with Iran.

Joe Biden's victory in the US presidential election of November 2020 marked a turning point. For supporters of the JCPOA, Biden's victory raised hopes that the United States would rejoin the agreement. During his campaign, Biden had announced a return to the JCPOA as a basis for further negotiations with Iran, for example on issues such as regional policy.¹⁹

However, a comprehensive relaxation of the US sanctions regime has not yet taken place. Following the presidential inauguration on January 20, 2021, the Biden administration did remove some restrictions that its predecessor had imposed, for example the «travel ban» against majority-Muslim countries (which had particularly affected Iran) and limitations on the freedom of movement of Iranian diplomats at the UN in New York. Yet, the sanctions most painful for Iran, especially those against the energy and financial sectors, remained in force.

The Biden administration's most significant step toward easing sanctions to date concerns the partial release of frozen Iranian foreign assets. South Korea, apparently in coordination with the United States, reached a deal with Iran on this issue in February 2021. One out of approximately USD 7 billion of frozen funds is to be converted into Swiss francs and made available to Iran for the acquisition of humanitarian goods through a dedicated financial instrument, the special purpose vehicle Swiss Humanitarian Trade Agreement (SHTA; see below).²⁰ At the end of February, however, South Korean officials reported that they were still waiting for a final green light from Washington.²¹

At the time of writing, about a month after Biden took office, it is still too early to draw conclusions about the Iran policy of his administration. At present, however, it is particularly striking that Tehran and Washington – at least publicly – each expect the other to fully implement the JCPOA again before they themselves are prepared to meet their own obligations²² (in response to the US withdrawal from the JCPOA, Iran began gradually violating the agreement in May 2019; see below). To be sure, both Tehran and Washington have brought EU mediation into play. As of late February, however, this had not yet led to a breakthrough. US sanctions are still hitting Iran with full force.

19 Biden (2020).

20 In parallel, Iran is to be allowed to use holdings of Iranian assets in South Korea to settle USD 16 million in outstanding payments at the United Nations; see Amwaj (2021).

21 Yonhap News Agency (2021).

22 Adebahr (2021).

1.2 Europe and US sanctions: From reluctant opposition to a new transatlantic unity

The European reaction to the US withdrawal from the JCPOA under the Trump administration was clear: The EU and its member states would remain committed to the «full and effective implementation» of the deal, provided Iran continued to implement it. Then-EU High Representative of the Union for Foreign Affairs and Security Policy Federica Mogherini emphasized firmly that the lifting of nuclear sanctions was an «essential» part of the nuclear deal. Europe would work to ensure that trade with – and investment in – Iran remained possible.²³ Germany, France, and the United Kingdom – the «E3» countries that played a key role in the JCPOA negotiations – promised the same.²⁴

The Europeans initially demanded, to great public effect, that the Trump administration exempt European businesses from the sanctions so that European-Iranian trade would continue to be possible.²⁵ The United States clearly rejected this request, just as it had previously waved away appeals not to withdraw from the JCPOA. In the end, the exchange underscored the rift in the transatlantic relationship with regard to Iran policy.

By disregarding vital European security interests connected to the JCPOA, Washington snubbed Europe, which had pursued a consensual solution until the very end. For the Europeans, this marked the start of the search for alternatives that did not involve the United States.

In August 2018 the EU reactivated its so-called Blocking Regulation, which essentially forbids European businesses from complying with the secondary US nuclear sanctions against Iran. The Blocking Regulation is a meaningful political signal because it expresses, in a legal manner, Europe's opposition to US sanctions and declares these invalid in the EU's legal area. Yet, for European commerce with Iran, the regulation has hardly any practical effect. Companies can quite easily cite reasons other than US sanctions to justify their withdrawal from the Iranian market. Even when weighing potential penalties, US sanctions weigh more heavily than the Blocking Regulation. That is because the financial penalties imposed by US courts for sanctions violations massively exceed those foreseen by the Blocking Regulation, which are limited to EUR 500,000. A simple cost-benefit analysis is likely enough to persuade many companies to stay on the safe side and follow US sanctions.

By autumn 2018 at the latest, it had become clear that the Blocking Regulation was not an effective means of maintaining European-Iranian trade. European companies began to withdraw from Iran en masse. In response, the E3 launched a new mechanism, the Instrument in Support of Trade Exchanges (Box 1).

²³ Council of the EU (2018).

²⁴ UK Prime Minister's Office (2018).

²⁵ BMWi (June 4, 2021).

Box 1: Instrument in Support of Trade Exchanges

In January 2019 in Paris, Germany, France, and the United Kingdom registered the so-called Instrument in Support of Trade Exchanges, known under the acronym INSTEX. INSTEX is meant to protect one of the Achilles' heels of foreign trade: dependence on the US financial system for international payments. This dependence is considered a decisive factor in the inability of those companies that remain willing to be active in Iran to find banks to carry out their payments. INSTEX seeks to set up a European-Iranian clearing house. European and Iranian importers can each settle liabilities with importers in their own economic area, allowing payments between Europe and Iran to be reduced to a minimum. INSTEX explicitly does not attempt to establish a channel for payments to and from Iran. For an indefinite period, INSTEX is to be limited to trade in humanitarian goods such as medications and food.²⁶ It took more than a year to get INSTEX up and running. Not until March 2020 was a first transaction carried out; previously, six further EU countries had joined INSTEX as shareholders at the end of 2019.²⁷ But that first transaction – for the delivery of medical goods – was only a pilot project, and there has not been a single transaction since. Therefore, INSTEX has not, in fact, commenced regular business operations.²⁸

INSTEX continues to face a number of challenges on an operational level. The main problem is the European trade surplus in humanitarian goods.²⁹ In order to function effectively, INSTEX requires a relatively stable balance-of-trade: After all, the instrument is meant to settle liabilities within each side's respective economic area. For this to work, the volumes of liabilities must be on similar levels. Yet, in recent years, products from Europe have consistently made up more than 75 percent of European-Iranian trade in agricultural and pharmaceutical goods (i.e., within the categories nominally covered by INSTEX).³⁰ Because it is limited to humanitarian goods, the system therefore lacks the liquidity to meet its full potential.

In the end, the developments around INSTEX reveal a dilemma of Europe's Iran policy. Although Europe is interested in continuing to trade with Iran in order to save the JCPOA, the EU and its member states do not want to risk a trade conflict with the United States over this issue. In its current form, then, INSTEX represents a middle ground. It aims in principle to establish an alternative mechanism for the processing

26 Ibid.

27 Belgium, Denmark, Finland, the Netherlands, Norway, and Sweden.

28 A similar instrument in Switzerland – the Swiss Humanitarian Trade Arrangement – has carried out only a single pilot transaction so far.

29 Other hurdles include Iran's multi-tiered exchange rate system (it remains unclear how a transparent mechanism might be set up) and the protection of European banks that process INSTEX payments.

30 European Commission (2020).

of international payments. For the moment, however, its use remains restricted to those areas nominally exempted from the US sanctions regime.

Thus, the aim is to initiate a new economic and political dynamic in the relationship with Iran without provoking the United States into taking punitive measures against European business interests. INSTEX was not, and is not, intended to circumvent US sanctions.

So, in its current form, INSTEX is unable to appreciably counteract either the collapse in European–Iranian trade or the extensive withdrawal of European companies from the country. Admittedly, the instrument does offer a starting point for processing payments without involving the US financial system, and it can be developed further and thus contribute to more European strategic autonomy, also in cases beyond Iran. In practice, though, it does not represent a reliable alternative to European–Iranian trade.

As a consequence, there is still neither a robust legal framework nor suitable instruments that would make – from a European perspective – legal economic relations with Iran possible, not even for the humanitarian trade nominally exempt from US sanctions.

These conditions led Iran to change its strategy. In May 2019, after a year of holding out hope that Europe would help limit the economic damage of the US sanctions regime, Tehran changed its approach. Since then, Iran has attempted to raise the price for the US policy of maximum pressure. To this end, the Islamic Republic has raised tensions around the Persian Gulf and begun to gradually disregard the limits imposed on it by the JCPOA (Box 2).³¹

Box 2: Iran’s new confrontational foreign policy

Since May 2019, Iran has pursued a confrontational foreign-policy strategy, primarily based on the elements listed below. Tehran wants to clearly show that it is not daunted by US sanctions, raise the price of US sanctions policy (for both the United States and its regional allies), demonstrate its own capacity for asymmetrical warfare, and amass bargaining chips for future negotiations with Washington.

A selection of Iran’s gradual violations of the JCPOA:

- July 2019: exceeds the 300 kilogram limit for low-enriched uranium
- July 2019: exceeds the 3.67 percent limit for the enrichment of uranium by enriching to 4.5 percent
- September 2019: withdraws recognition of all limits for nuclear research and development and, in the following weeks, increases its use of more advanced centrifuges for uranium enrichment not permitted by the agreement

³¹ Jalilvand (2020).

- November 2019: resumes enriching uranium in the subterranean military facility in Fordo
- January 2020: withdraws recognition of all limits on uranium enrichment and the use of centrifuges
- November 2020: uses IR-2m centrifuges at the Natanz facility
- January 2021: enriches uranium to 20 percent
- February 2021: produces uranium metal

Raising of tensions around the Persian Gulf

Iran is accused of being responsible for the following events (among others):

- Attacking an oil tanker in the Gulf of Oman, near the Strait of Hormuz (2019)
- Shooting down a US drone (RQ-4 Global Hawk, June 2019)
- Confiscating a British oil tanker in the Persian Gulf (July 2019)
- Dozens of attacks on US troops by militias allied with Iran (since October 2019)
- Drone and rocket attacks carried out by the Houthis against Saudi Arabia (since 2019)

For Europe's policy, this change of strategy presents major challenges. Iran's nuclear activities beyond the limits of the JCPOA have reanimated fears about nuclear non-proliferation, which many thought had been safely put to bed. Specifically, concerns are increasing around Iran's breakout time, that is, the time period between a decision to build a nuclear bomb and the acquisition of enough fissionable material to do so. Worried about Iran's nuclear activities, the E3 triggered the formal dispute resolution mechanism of the JCPOA in January 2020, though so far this has not led to any progress. In parallel, the already significant geopolitical tensions around the Persian Gulf are on the rise, which increases the risk of a miscalculation and an escalation.

Iran's confrontational policy complicates considerably European efforts to save the JCPOA. This is because – to the extent that Tehran's nuclear activities reduce Iran's breakout time – the JCPOA can no longer guarantee the European security interests connected to the deal. Thus, the JCPOA loses relevance. One way out could be to follow the formula «More European trade in exchange for Iran's full implementation of the JCPOA» – but the political outlook for this solution has darkened. With the change of government in the United States, after all, Europe's own ability to shape affairs was reduced, since Tehran will now pursue a direct solution with Washington. The Europeans did offer to serve as mediators for conversations between Iran and the United States; through the Joint Commission of the JCPOA that it coordinates, Europe can play an important role when it comes to formalizing conversations between Tehran and Washington. With respect to the content of the talks, however, Iran and the United States will decide matters on a bilateral basis. Another obstacle to European mediation is Europe's simultaneous effort to converge with the United States in the hope of developing a joint Iran policy.

As of the end of February, a solution to the dispute over the nuclear agreement remained elusive. Despite all diplomatic efforts, US sanctions continue to have an unchecked effect on the Iranian economy.

1.3 Iran's economy: Between recession and resilience

Sanctions have done enormous damage to the Iranian economy. The recovery that began after the implementation of the JCPOA – for a time, Iran's economy was the fastest-growing in the MENA region – was brought to an abrupt end, plunging Iran into a deep, multi-year recession. The economic consequences, however, are more complex and more contradictory than the GDP figures might suggest. Even under the US sanctions regime, the Iranian economy remained resilient because of its relatively advanced diversification and industrialization. Before the outbreak of the coronavirus, the country seemed to have already reached the low point of the recession – until the pandemic caused another economic slump.

In the field of Iranian economic policy, the sanctions led to a renaissance of the «resistance economy,» a buzzword from the early years of the previous decade; Iran's Supreme Leader, Ali Khamenei, introduced the term in 2010 as a reaction to the EU and US sanctions in place at the time. The «resistance economy» was nominally the guiding principle of Iranian economic policy from that point onward, though it was pushed into the background by the developments around the conclusion of the JCPOA.

Although all political camps refer to the idea of the resistance economy, it still does not qualify as a fully-fledged political concept. In 2014 Khamenei himself defined a list of measures meant to make up the core of the resistance economy.³² But these measures leave room for interpretation, and in practice the various factions interpret »resistance economy« in ways that suit their political agendas. It is not only the radical-conservative forces that use the term to justify their demands for extensive economic autarchy. President Rouhani also places his attempt to (re)integrate Iran in the world economy under the banner of the resistance economy. Both the calls to reduce imports (more or less in the interest of an import-substituting industrialization) and the demands to cooperate with other countries in order to promote technology transfers are justified in the name of the resistance economy.

Despite such differences in political interpretation, it is possible to make out the broad contours of the resistance economy. It is essentially based on three pillars:

- Reducing international vulnerabilities: Because of its decades-long experience with various sanctions regimes, Iran seeks to reduce its vulnerability in foreign trade as much as possible. Capabilities essential for the domestic economy should be reserved in and for the country itself.
- Strengthening domestic capabilities: The process of diversification and industrialization that began before the 1979 revolution should be continued and expanded.

32 ISNA (2014).

In this way, the dependence on petroleum exports should be further reduced, as these represent a comparatively easy target for sanctions. In addition, this should promote job creation and the domestic value-adding processes.

- Promoting economic growth through exports: Domestic added value should be expanded beyond the consumption needs of the Iranian population. As well as increasing prosperity, exports should bring in hard currency to finance the exports that continue to be necessary.

On this basis, in conjunction with efforts at economic diversification that go back more than half a century, the Iranian economy today is showing itself to be comparatively broad-based and resilient. That it is falling far short of its potential due to numerous homegrown problems³³ does not change this fact.

Recession

All in all, Washington’s sanctions have done considerable damage to the Iranian economy. Two years of growth made way for a long period of recession: Iran’s GDP fell by 5.4 percent in 2018 and by 6.5 percent in 2019. The current recession is longer and in total larger than the one before the completion of the JCPOA, which was related to the sanctions of the Obama administration.



33 See above.

Most international firms withdrew from the Iranian market, and Iran's foreign trade suffered a considerable collapse. Iran's foreign trade total in Q4 2019 was two-thirds smaller than in the same period two years before (Figure 3). Significantly, this decline has not only affected European-Iranian trade, which fell from EUR 21 to 5 billion per year between 2017 and 2019 (Figure 4). Trade with China, India, and Turkey also fell substantially in 2019, and economic relations are in any case quite weak. This undermines the thesis – increasingly put forward by Iranian politicians – that there is an economic and political «alternative in the East.»³⁴ On the contrary, the sanctions caused a decline in Iran's foreign trade relations around the globe. Even countries such as China and India appear quite sensitive with regard to potential punitive measures from the United States. Iran's problems are aggravated by the fact that, in the recent past, there has been an excess supply of petroleum, by far its largest export good. This has made it relatively easy for Tehran's customers to find substitutes for Iranian oil (see below).

Petroleum exports – Iran's most important source of foreign currency earnings – fell by more than 80 percent at their lowest point. The associated financial damage is even greater. For example, Iranian proceeds from petroleum exports were – and are in many cases – deposited in escrow accounts, to which Tehran has no or only very limited access. Furthermore, Iran has been forced to offer heavy discounts to its remaining customers, above all China. Finally, the general decline in international oil prices has ensured that Iran – like other exporters – receives less revenue for its exports.

The collapse of Iran's petroleum exports led to a large trade deficit. As a result of the sanctions, exports fell faster than imports, leaving Iran with a trade deficit in 2019. Thus, the country earned less foreign exchange (in hard currency) than it needed to finance its imports. Combined with Iran's severely limited access to foreign assets, also due to sanctions, this has led to great pressure to further reduce imports (in the absence of opportunities to significantly increase exports). Iran's situation is exacerbated by the fact that imports cost more due to sanctions-related difficulties with processing Iran-related financial transactions—and that having fewer import options available can potentially increase the price of the remaining imports. Overall, Iran is therefore able to finance fewer imports through its exports than it could before the reimposition of US sanctions.

Iran's trade deficit and difficulties repatriating export earnings induced a marked fall in the value of the Iranian currency, the rial, which rapidly decreased in value against the US dollar in just a short time. From the end of May 2017 to the end of May 2020, the price of one US dollar rose from IRR 37,200 to 175,000. This corresponds to a price increase of 470 percent. In foreign trade, this means a dramatic increase in import costs for companies without access to subsidized government exchange rates – companies that were already facing higher costs because of limited options for both imports and processing transactions. For private households, especially those in the middle class, imported consumer goods and foreign travel (e.g., for vacation or education) often became unaffordable.

34 Zamirirad et al. (2020) for more on the debate about this.

Figure 3: Iran's foreign trade

[Billion USD]

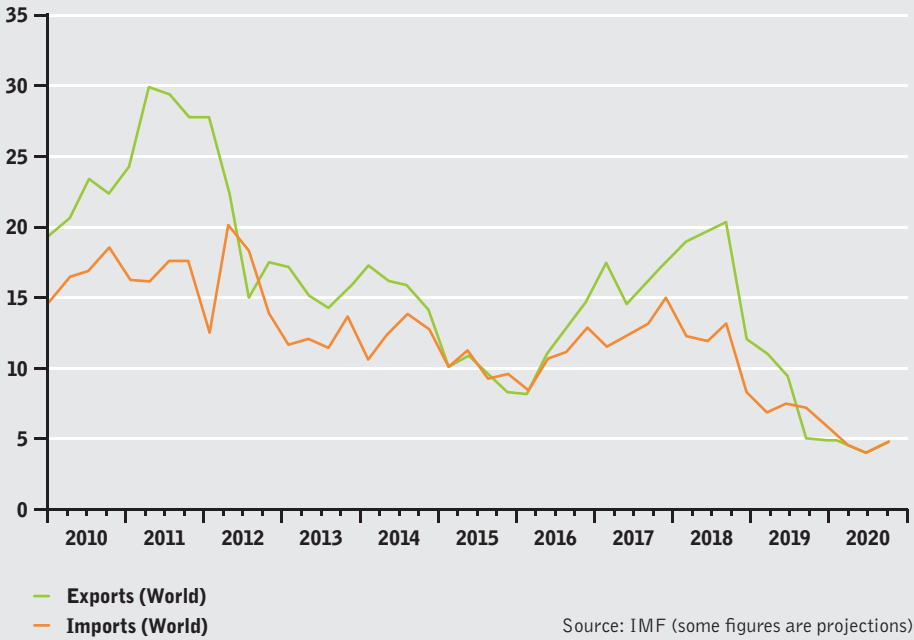


Figure 4: Iran's trade with the EU-28

[Billion EUR]

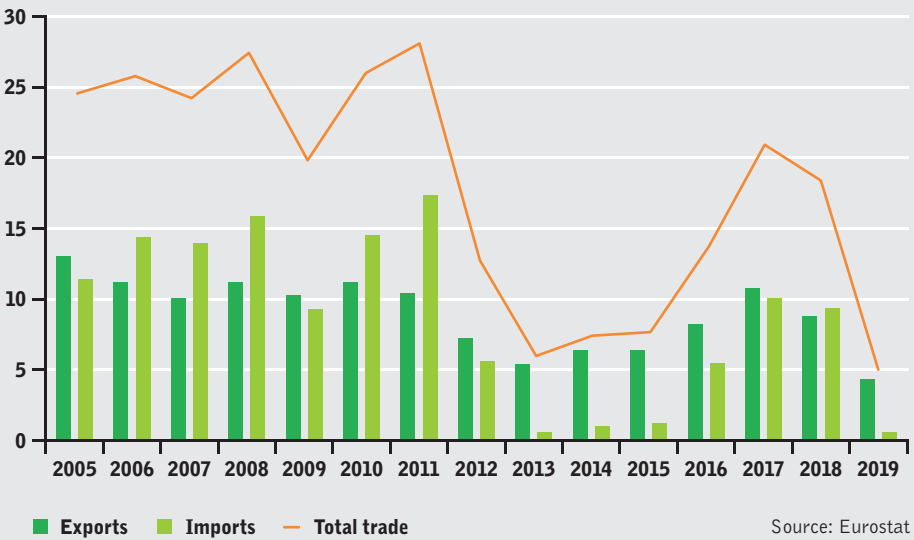


Figure 5: Iran's trade with China, India, Russia, and Turkey

[Billions USD/quarter]

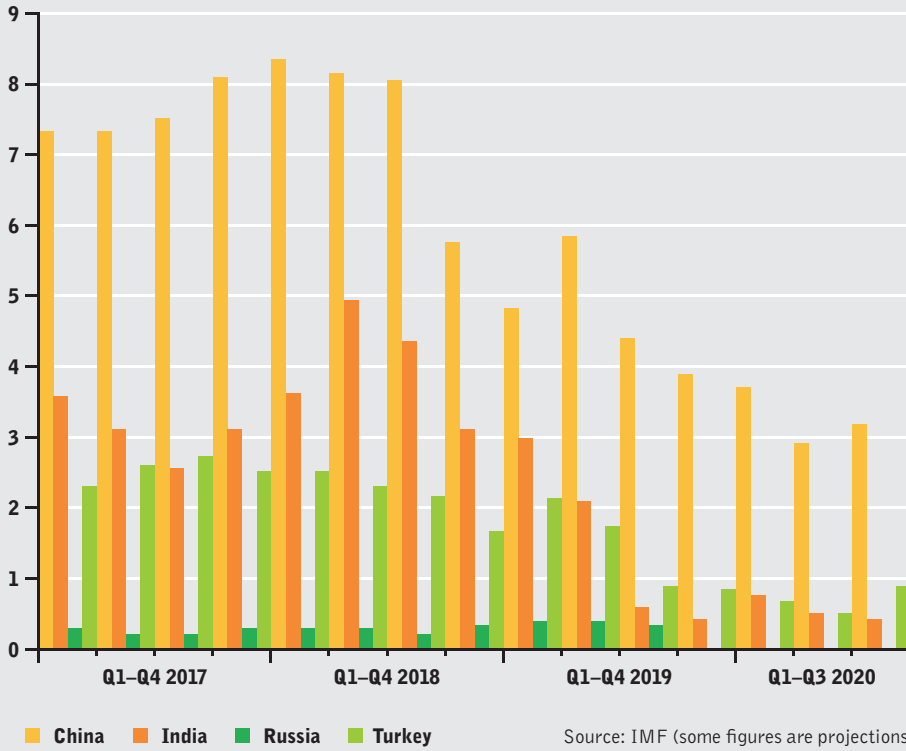
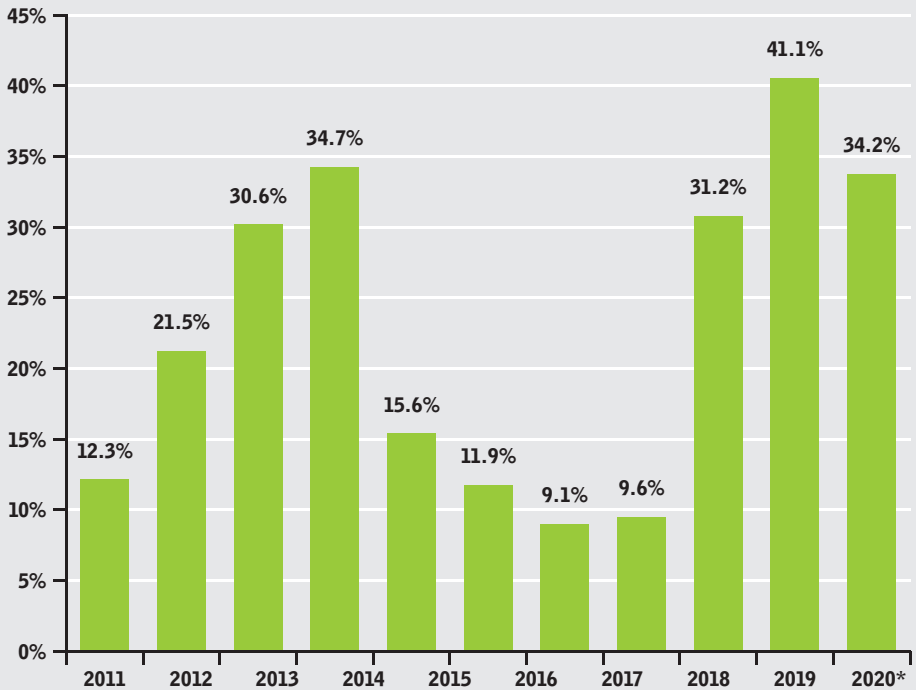


Figure 6: Floating exchange of the Iranian rial (IRR) to the US dollar

[IRR per USD]



Figure 7: Iran's inflation rate



* Extrapolation for 2020

Source: IMF

For the Iranian population, the devaluation of the rial and inflation resulted in a considerable decline in purchasing power. The price of many goods, including everyday goods, increased, in some cases substantially (Figure 8). Between January 2018 and December 2019, for example, food prices rose by an average of 96 percent, and the average price of clothing doubled.³⁵ As a result, the country's already serious socio-economic crisis worsened and increasingly began to affect the urban middle class. In a recent poll, 8.2 percent of Iranians said they did not consume meat at all in the past Iranian year, 1398 (2019-20), and another 14.4 percent said they did so only occasionally.³⁶ The loss of purchasing power is also reflected in the dramatic increase in housing prices, which have risen between 40 and 50 percent just since the outbreak of the coronavirus pandemic. The loss of purchasing power in previous years played a major role in the protests against fuel subsidy cuts in November 2019.³⁷

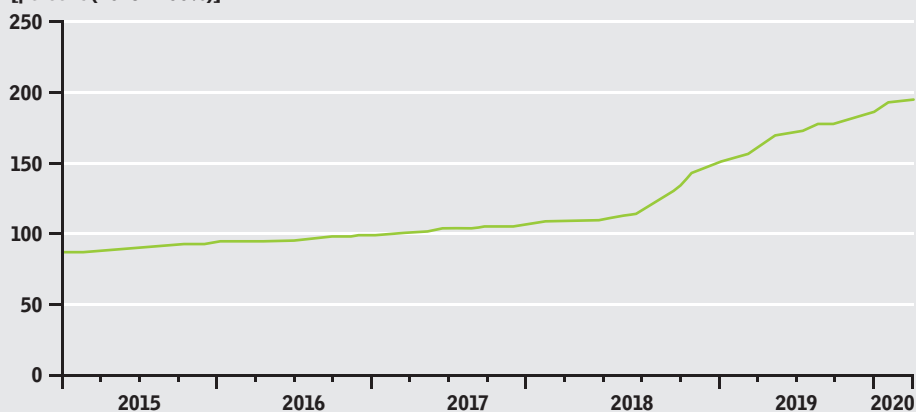
³⁵ According to the IMF Consumer Price Index.

³⁶ The reasons for this were primarily economic: Vegetarianism is very uncommon in Iran; see ISNA (2020b).

³⁷ ISNA (2020a).

Figure 8: Consumer price index (total)

[percent (2016=100%)]



Source: IMF

The sanctions-related economic crisis also exacerbated inequalities in the labor market between women and men. The labor force participation rate³⁸ of women fell by 3.4 percent over the last few months (from 17.6 to 17.0 percent), contrary to the overall positive labor market developments (see below).³⁹ This illustrates the structural discrimination that has been growing for decades and affects Iranian women in the labor market as well as other areas. While the labor force participation rate for men has been more than 70 percent in recent years, the figure for women has been consistently below 20 percent and is now on the decline again. There are no reliable current figures on the differences in pay between women and men («the gender pay gap»). However, it is fair to assume that Iran's economic crisis has not led to an increase or alignment of women's salaries. It is more likely that structural inequalities manifested themselves further in this area. Compared with 2018, the already large structural differences between men and women widened slightly, as the World Bank recorded in the statistics for its Global Gender Gap Index.⁴⁰

Resilience

Although the damage from US sanctions is considerable, the Iranian economy overall has proved to be relatively resilient. Indeed, the collapse of foreign trade and petroleum exports was a serious blow. But a look at the economy outside of the energy sector reveals a more nuanced picture: Iran's «non-oil GDP,» which is economic

³⁸ The share of the working-age population that is either working or actively looking for work.

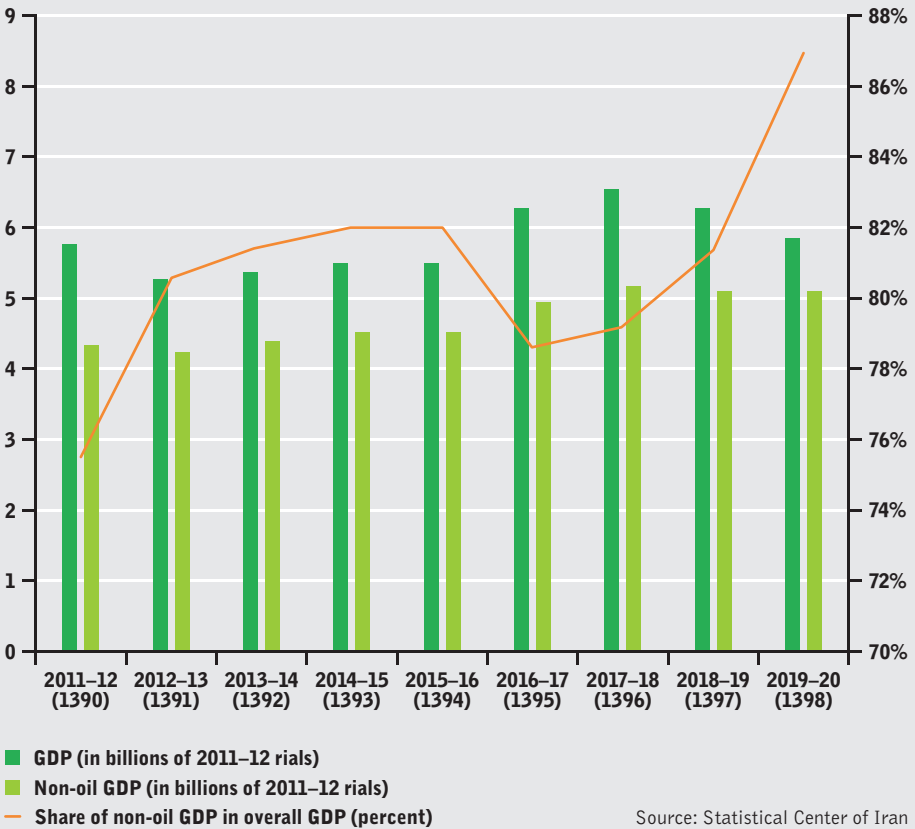
³⁹ This compares the Iranian year 2019-20 with the previous year. In the same period, the labor force participation rate of men sunk by 0.6 percent, from 71.4 to 71.0 percent; see Statistical Center of Iran (2020).

⁴⁰ World Bank (2018, pp. 127-28; 2020, pp. 189-90).

production minus the oil and gas sectors, declined by only 1.8 in 2018 – and it actually grew again in 2019 by 1.1 percent, in contrast to overall GDP, which fell more in 2019 than it had in the previous year (Figure 2). Before the outbreak of the coronavirus pandemic, the IMF predicted that the Iranian economy would move from recession to stagnation. The pandemic threw the economy back into recession (see below), but it is expected – even assuming continued US sanctions – to exit recession in 2021, with moderate GDP growth of 3.2 percent and an increase in non-oil GDP of 3.8 percent.⁴¹ The Trump administration’s attempt to grind Iran’s economy to a halt by sanctioning its domestic economy failed, in the end, to bear fruit.

Figure 9: Share of non-oil GDP in total GDP

[2011-12 quadrillion rials (1390)]



⁴¹ In October 2019 the IMF forecast overall GDP to be stagnant at 0.0 percent, expecting slight growth of 1.2 in the economy beyond the energy sector. In April 2020 the IMF adjusted its forecast. For 2021 it expects GDP growth of 3.1 percent and non-oil GDP growth of 3.9 percent.

The resilience of the Iranian economy is based on its relatively advanced diversification. The share of non-oil GDP has grown over the course of time, from three-quarters at the beginning of the last decade to nearly 90 percent of overall GDP today. This relative increase should not only be attributed to the decline in earnings from the energy sector. In fact, Iran's economy beyond the energy sector – particularly services and industry – has enjoyed steady real (i.e., inflation-adjusted) growth (Figure 9). Accordingly, the country has continued to reduce its reliance on revenue from the energy sector. This development has affected the Iranian labor market, since value creation was relocated from capital-intensive to labor-intensive industries (whose demand for capital nevertheless exceeds the country's ability to provide it many times over).

Iran's progress in diversification is also reflected in the continued rise in non-oil exports. In Iranian year 1397 (2018-19),⁴² shortly before the United States reintroduced sanctions, Iran's non-oil exports totaled more than USD 39 billion: 50 percent of this was industrial goods, a sector that has grown significantly in recent years (48 percent growth over five years); 36 percent was petrochemical products (Figure 10). In the previous Iranian year, 1398 (2019-20), for which figures are not yet available, non-oil exports likely declined due to sanctions. At the same time, they may well have become – for the first time in the history of modern Iran – more valuable than oil exports.

In the short term, the non-oil exports provide a foundation for Iranian foreign trade. Whereas oil exports fell by more than 80 percent, overall exports declined by «only» 41 percent. In the long term, especially given the increasing exports of industrial goods, these exports offer a vision of a future beyond the energy sector.

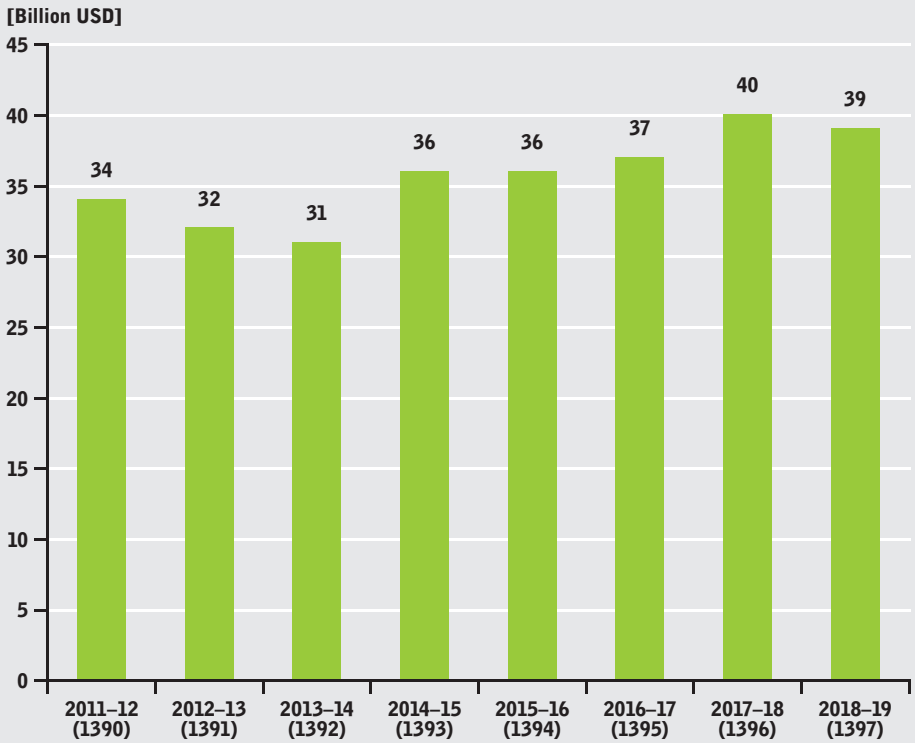
Unlike with oil, Iran exports the majority of its non-oil exports to neighboring countries. In 2018–19 regional exports made up 58 percent of overall exports, and that figure has been rising.⁴³ Since regional trade is mostly in agricultural goods and in some cases uses alternative payment systems, it is less vulnerable to the US sanctions regime.

Paradoxically, US sanctions have had a slight positive effect on the Iranian labor market. Because of foreign trade restrictions, the collapse of the currency, and inflation, Iran's imports declined sharply. Whereas Iran imported goods worth USD 15 billion as recently as Q4 2017, in the same period in 2019, imports were worth only USD 5.8 billion. Because of the cost increases described above, Iran may even have received fewer goods per dollar than two years ago. These factors had a positive effect on the competitiveness of Iranian products. The unavailability and rising prices of imports increased sales opportunities for Iranian producers, and in many cases Iranians substituted domestic products for foreign products. Its relatively advanced diversification enables Iran to procure most consumer goods in the country itself. Given the high price differences, any disadvantages in terms of quality fade into the background. Moreover, the collapse of the currency has created competitive advantages in (primarily regional) export trade, as long as markets are accessible.

⁴² The Iranian calendar year is based on the solar calendar and starts with the beginning of spring: 2018–19 corresponds to the Iranian year 1397.

⁴³ Trade Promotion Organization of Iran (2019, p. 8).

Figure 10: Iran's non-petroleum exports



Source: Trade Promotion Organization of Iran

In the past Iranian year, 1398 (from March 2019 to March 2020), the Iranian economy took advantage of these effects and utilized existing production capacity as much as possible. The average number of jobs was 1.8 percent higher than the previous year.⁴⁴ Men were the main beneficiaries of this temporary increase in job opportunities. Jobs for men were created at eight times the rate as jobs for women in the previous year.

These small positive effects in the labor market are overshadowed by the dramatic loss of purchasing power as a result of inflation. The effect is also likely to be short-lived, since substantial investment would be needed for Iranian industry to grow in the medium to long term, for which Iran lacks the necessary capital due to sanctions.⁴⁵ For the majority of the Iranian population, the economic situation has therefore worsened dramatically, despite these (temporary) positive labor market effects (see above).

⁴⁴ Statistical Center of Iran (2020).

⁴⁵ Salehi-Esfahani (2020).

2 Sanctions and the Iranian Healthcare System

The Iranian healthcare system is comparatively well-developed by regional standards. In terms of its ability to deliver services, Iran performs at a similar level to the Gulf states, in some areas even better – this despite considerably lower earnings from exports of oil and gas. And Iran’s healthcare system performs much better than those of neighboring countries Afghanistan, Iraq, and Pakistan as well as the countries of the Caucasus and Central Asia.⁴⁶

General health insurance and subsidized prices for pharmaceuticals ensure access to medical care for large swathes of the Iranian population. Exceptions exist in some cases for members of religious minorities,⁴⁷ and workers in the informal sector have only limited access to state medical services. There continue to be large differences between the services offered in public healthcare and the (much more expensive) private healthcare system.

Iran is one of the few countries that offers the same medical insurance and medical care to migrants as to its own citizens. Nevertheless, infectious diseases (for example) are more widespread among migrants than among the general population, in part because the burden of co-payments and deductibles is generally too high for migrants, who tend to be in a more difficult socio-economic situation.⁴⁸

Iran has once again become a destination for medical tourism in recent years. In Iranian year 1397 (2018-19), more than 500,000 patients visited the country to receive medical services, most coming from the adjacent regions of the Middle East, the Persian Gulf, and Central Asia. This generated additional revenues of around USD 1.5 billion for the Iranian healthcare sector.⁴⁹ The number of international patients has risen sharply in recent years and increased more than tenfold over the last decade. Iran’s government aims to quadruple this figure by 2026 and reach 4 million international patients a year.

The Iranian healthcare system can rely on an established and broad-based pharmaceutical industry whose roots go back a century. According to its own figures, Iran produces 97 percent of all pharmaceuticals consumed in the country, as well as 67 percent of the pharmaceutical substances used for production in Iran itself.⁵⁰

⁴⁶ WHO (2020b, p. 37).

⁴⁷ Especially for followers of Bahaism, who openly profess their religion.

⁴⁸ UNHCR in Iran is one of the organizations working to address this; see UNHCR (2019).

⁴⁹ Financial Tribune (2019).

⁵⁰ Fars News (2019).

Although the country can produce its supply of generic drugs domestically, it still needs to import a number of more complex drugs.

With regard to sanctions, Iran's dependence on imports of certain complex medications has proven to be an Achilles' heel of the Iranian healthcare system. Essential medications were already in short supply under the EU and US sanctions regimes before the conclusion of the JCPOA. Drugs for the treatment of diseases such as hemophilia, HIV, leukemia, and thalassemia could either no longer be imported or only imported to a limited extent. The sanctions also affected the pharmaceutical industry, severely curtailing its access to dual-use chemicals,⁵¹ machinery, and equipment. In the wake of the sanctions, there was an increase in corruption and black market trade in pharmaceutical products, including by state actors. Moreover, counterfeit drugs entered circulation. The pre-JCPOA sanctions therefore had dramatic – and in many cases fatal – consequences for the hundreds of thousands of Iranians who depend on imported drugs and medications.⁵²

There were two central causes for Iran's problems with imports of pharmaceutical goods under the pre-JCPOA sanctions (despite nominal exceptions). Both were pointed out at the time: restrictions on processing payments due to sanctions on the financial system, and a shortage of foreign currency to pay for imports.⁵³ Between 2011 and 2012, Iranian imports of pharmaceutical goods fell by 27 percent, from USD 1.86 billion to USD 1.35 billion.⁵⁴

The negotiation and conclusion of the JCPOA led to a recovery in imports of pharmaceutical goods. The interim agreement concluded in December 2013, the Joint Plan of Action, marked a turnaround. However, it took until 2018 for Iranian pharmaceutical imports to return to pre-sanctions levels.

2.1 Sanctions and restrictions on humanitarian trade

The reimposition of US sanctions on Iran, taken as a whole, caused a repeat of events from the time prior to the JCPOA. Once again, sanctions restricted Iran's access to complex medications, drugs, and equipment for the pharmaceutical industry.

Although Iran has been able to maintain basic services relatively easily, the sanctions have resulted in a significant shortage of many essential complex medications. According to Human Rights Watch, shortages specifically affect patients with epidermolysis bullosa (EB, a skin disease known as «butterfly disease»), epilepsy, leukemia, and chronic eye injuries (resulting from poison gas attacks during the Iran-Iraq war).⁵⁵

US sanctions led to a significant increase in the price of pharmaceutical imports, due to both the dramatic loss in value of the Iranian rial and higher transaction costs as a result of the increased obstacles to international financial transactions.

51 For example, for military purposes.

52 Butler (2013).

53 Namaki (2013).

54 UNCTAD (2020).

55 Human Rights Watch (2019).

Iran's public health insurance system has so far largely absorbed the extra costs. Given the resulting cost pressures, however, some goods, such as vitamins and nutritional supplements, have been excluded from state subsidies, making them unaffordable for low-income patients, for example leukemia patients. Rising cost pressures are threatening to lead to further restrictions of services in the public health insurance system.

Compared to the sanctions regime prior to the JCPOA, restrictions on trade in pharmaceutical products have increased. The problems are essentially the same in both sanctions periods: extreme restrictions on the processing of payments and an increase in the cost of imports due to the loss in value of the rial. However, US sanctions are now stricter, which makes doing business with Iran riskier and more unpredictable. The Trump administration imposed sanctions on most Iranian banking institutions as well as the country's central bank. Only a few banks remain eligible to process payments under US law, and these banks often lack liquidity or experience with international transactions. The sanctioning of the Revolutionary Guard, which potentially affects up to 11 million Iranians, makes the labyrinth even more confusing.

For many banks and (pharmaceutical) companies, the effort and expense of due diligence⁵⁶ exceeds the return on potential business with Iran. This is especially the case when taking into account the opportunity cost of giving up alternative markets. In practice, it often remains impossible to conclusively prove that sanctioned persons or organizations will not be somehow involved in a transaction. This uncertainty is due to the lack of transparency in the Iranian economy, which has still not implemented or enforced numerous international standards to combat money laundering and terrorist financing.⁵⁷

Due to fears over potential penalties in the US market, many banks «overcomply» with US sanctions and refrain from Iran-related transactions as a rule. The remaining pharmaceutical companies interested in exporting to Iran are therefore often able to process payments from Iran only with difficulty and at considerable additional expense.

There is, therefore, no comprehensive and robust legal framework for conducting humanitarian trade with Iran. Although the US sanctions regime nominally permits the delivery of medical supplies and foodstuffs, the Trump administration made no effort to effectively clear up doubts about this exemption, for example with regard

56 That is, the thorough examination and consideration of all risks associated with a transaction.

57 Specifically with regard to the adoption and implementation of a plan of action by the Financial Action Task Force (FATF) based at the OECD in Paris.

to its scope and the criteria for due diligence. Statements by US officials referring to humanitarian trade exemptions⁵⁸ were overshadowed by sweeping threats of force.⁵⁹

The US government has since acknowledged that it failed to create sufficient legal certainty for humanitarian trade. In October 2019, Washington therefore authorized certain transactions with Iran's (still sanctioned) central bank so that humanitarian trade could be conducted.⁶⁰ Throughout the autumn, the United States worked with Switzerland to develop the Swiss Humanitarian Trade Agreement, an INSTEX-like special purpose vehicle that carried out a pilot transaction to export pharmaceuticals from Switzerland to Iran in March 2020. As with INSTEX, however, SHTA's pilot transfer has not yet been followed by the start of regular business operations. South Korea has received several case-by-case approvals from the US government for exports of humanitarian goods to Iran.⁶¹ Seoul is apparently also working in parallel on establishing its own special purpose vehicle, the Korean Humanitarian Trade Arrangement, although it remains uncertain when it will start operating.⁶²

However, these US government measures did not reverse the trend in humanitarian trade with Iran. For the most part, international banks and companies continue to avoid the Iranian market out of concern about violating the US sanctions regime or because the potential revenues do not outweigh the additional bureaucratic effort required to ensure «compliance.»

As a result, Iran's ability to import essential medications and drugs remains limited. As was the case before the conclusion of the JCPOA, it is not only patients who suffer: Black market trade, corruption, and the distribution of counterfeit medications are also flourishing again as a result of the sanctions.⁶³

Germany and Europe are particularly affected by the lack of a comprehensive and robust legal framework for humanitarian trade with Iran. After all, before the reimposition of US sanctions, Iran sourced nearly four-fifths of its pharmaceutical imports from the European Economic Area and Switzerland (Figure 11). Nearly one-third of European exports of pharmaceutical products to Iran originated in Germany. Germany and Europe therefore occupy a key position when it comes to securing Iran's supply of vital complex medications.

58 For example, from Secretary of State Mike Pompeo in March 2020: «The whole world should know that humanitarian assistance into Iran is wide open. It's not sanctioned [...] There is no sanction on medicines going to Iran, there's no sanctions on humanitarian assistance going into that country.»

59 For example, President Trump tweeted in August 2018: «Anyone doing business with Iran will NOT be doing business with the United States.» In May 2018 then-US ambassador to Germany, Richard Grenell, made an equally sweeping threat on Twitter: «German companies doing business in Iran should wind down operations immediately.»

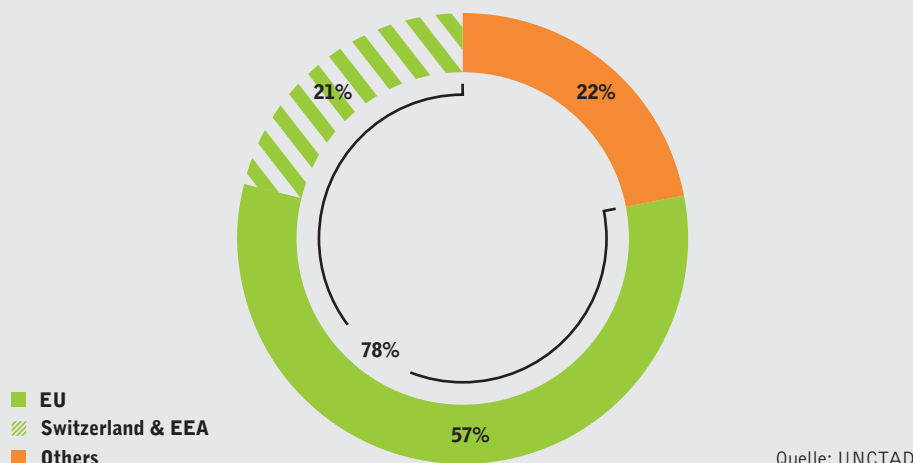
60 US Department of the Treasury (2019).

61 The case-by-case licenses («General License 8») were issued by the Office of Foreign Assets Control, a sub-agency of the US Department of the Treasury; see Yonhap News Agency (2020).

62 Tensions between Seoul and Tehran have since risen in the wake of Iran's seizure of a South Korean tanker, apparently as a bargaining chip for the release of Iranian assets frozen in South Korea; see Korea Times (2020).

63 A systematic analysis of this is still pending, but various reports suggest that this is the case; see, among others, Kermalli (2020).

Figure 11: Iran's imports of pharmaceutical products by region of origin



Given how important Europe is when it comes to supplying Iran with vital medications, the decline in Iranian pharmaceutical imports from Europe has been all the more serious. From 2016 – the year the JCPOA was implemented – to 2019, the financial volume of Iranian imports from the EU fell by 19 percent (Figure 12). The actual decline is likely to have been even greater, as it can be assumed that the cost per medication or pharmaceutical substance has increased significantly due to the shortage in supply as well as increased transaction costs. The situation is exacerbated by the fact that Iran does not have adequate substitutes for many of the more complex medications and pharmaceutical substances, which accounts for the emergency situation with regard to compounds for the treatment of various diseases outlined above. Amid the sanctions-induced economic crisis, shortages and rising prices for pharmaceutical imports have had a particularly severe impact, especially for the growing number of suffering households in Iran.

For the time being, little is likely to change in this regard, in part because there is still no timetable for INSTEX to start regular business operations.⁶⁴ European-Iranian trade in pharmaceutical products therefore remains below its potential – which literally has fatal consequences for Iranians. It is true that there are not yet any reliable figures suggesting an

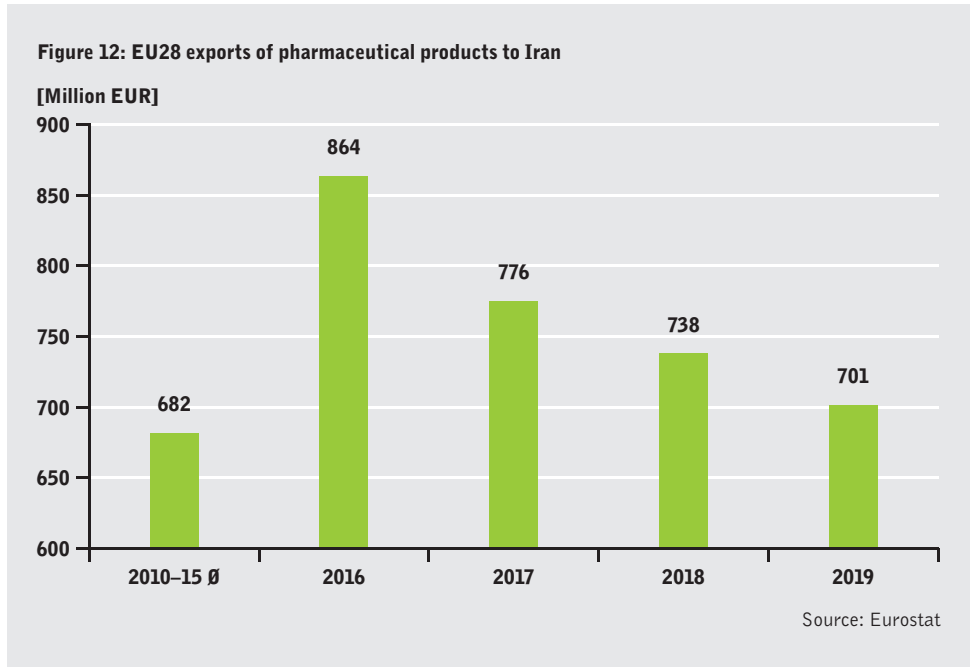
increase in mortality rates or a worsening of disease outcomes. However, it is fair to assume that the shortage of complex medications has had negative effects, also in light of individual case reports from Iran.

On an international level, there are no signs that the US government will take measures to create a robust legal framework for carrying out humanitarian trade. Even the outbreak and consequences of the coronavirus pandemic have not led to

⁶⁴ Deutscher Bundestag (2020, p. 9).

a comprehensive relaxation of the US sanctions regime, neither under Trump nor Biden.

Although new US President Joe Biden has announced a review of all existing US sanctions to determine how assistance can be provided to Iran in the context of the coronavirus pandemic,⁶⁵ no sanctions have actually been eased yet. The sanctions imposed by the Trump administration remain in effect virtually unchanged (as of the end of February 2021).



⁶⁵ Wadhams et al. (2021).

3 The Coronavirus Crisis in Iran

Iran officially reported its first case of the coronavirus on February 19, 2020. The number of cases rose rapidly thereafter, making the country the «epicenter» of the pandemic in the Middle East within a few days. The first wave of infections reached its peak a little more than a month later, before the number of new infections dropped significantly again, from 3,186 on March 30 to 802 on May 2. But the curve went back up during May, and Iran experienced a second wave of infections, which peaked at 3,547 new infections per day on June 5. The following months saw an initial decline and eventual stabilization of case numbers, at around 2,000 new infections per day. However, from mid-September onward, the number of infections rose rapidly once again, and the country experienced its third wave of infections, which was significantly larger than the first two. The highest number of new infections per day – 14,051 cases – was recorded on November 28. The number of new infections per day decreased again from the beginning of December, but it is still consistently high, at about 8,000 per day (as of the end of February 2021). The number of coronavirus deaths per day reached a new (interim) high of 486 on November 17 (as of February 2021; see Figure 13). In February 2021 the Iranian Ministry of Health warned that a fourth wave of infections was about to begin.⁶⁶

By global standards, the pandemic in Iran has not taken an exceptional course per se, neither in terms of total case numbers, nor case numbers relative to the population, nor mortality rates.⁶⁷

But Iran could well be cooking the books. Media reports suggest that the actual number of coronavirus deaths in Iran could be three times as high as the official number given out by the government.⁶⁸

In any case, the country certainly squandered valuable time that it could have used to slow the spread of the virus. For a long time the state failed to take decisive action. It was not until March 2020, more than a month after the World Health Organization (WHO) had classified the coronavirus as a «health emergency of international concern» in late January, that Iran took comprehensive measures.

Initially, however, the political leadership in Tehran played down the dangers of the pandemic. The highest state authorities even circulated conspiracy theories. Referring to comprehensive quarantine measures, President Rouhani, for example, said that there was a «conspiracy by our enemies» that aimed to «make us close our country out of fear of corona.»⁶⁹ As late as early March 2020, Supreme Leader Khamenei

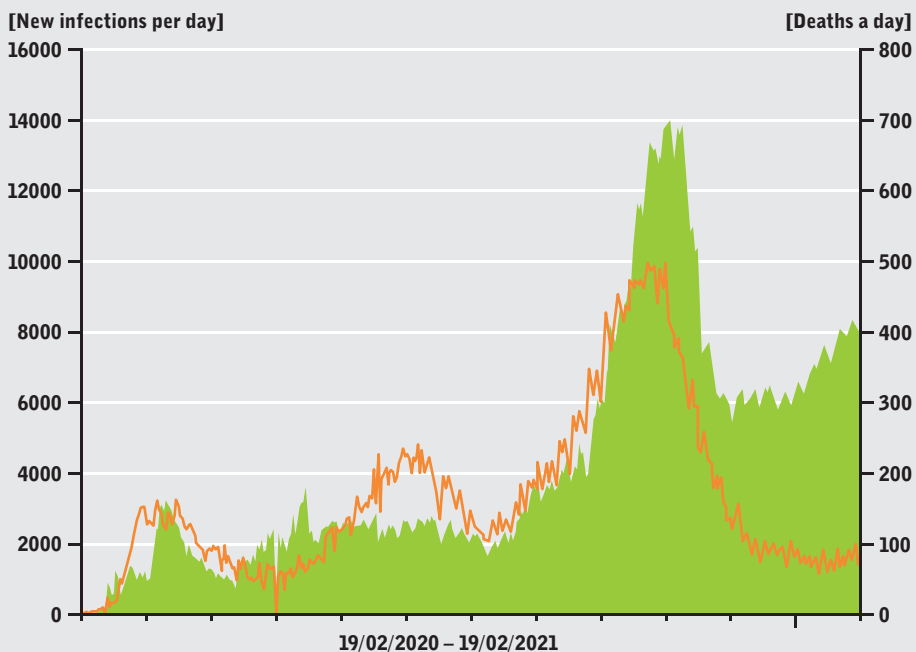
⁶⁶ DW (2020).

⁶⁷ WHO (2020a).

⁶⁸ BBC Persian (2020c).

⁶⁹ BBC Persian (2020a).

Figure 13: New coronavirus infections and deaths in Iran



Source: WHO

called the coronavirus «no big deal.»⁷⁰ Also, in early March, the commander-in-chief of the Revolutionary Guards, Hossein Salami, circulated the claim that the coronavirus could be a biological attack by the United States.⁷¹ This thesis, in turn, was echoed by Khamenei, who even publicly claimed that the United States had collected genetic material from Iranians for this purpose.⁷²

The Iranian authorities also relied on repression in their attempt to conceal the extent of the pandemic. Throughout the country, journalists who questioned the official narrative and/or criticized the authorities' handling of the pandemic were summoned by security authorities for interrogation and, in several cases, even imprisoned.⁷³ In August 2020 a newspaper that questioned the official coronavirus statistics was forced to shut down.⁷⁴ In hospitals, security officials apparently encouraged doctors to issue false death certificates.⁷⁵ Finally, starting in early April, relatives had to coordinate the funerals and the issuance of death certificates for those lost to

⁷⁰ Khamenei (2020).

⁷¹ Donya-e Eghtesad (2020a).

⁷² Hermann (2020).

⁷³ Reporter Ohne Grenzen (2020).

⁷⁴ The newspaper World of Industry (Jahan-e Sanat); see IRNA (2020b).

⁷⁵ Michael (2020).

coronavirus with the Revolutionary Guards, which made it possible for the latter to report different causes of death on a massive scale.⁷⁶

Beyond flagrant underestimation, conspiracy theories, and repression, Iran's hesitancy in dealing with the pandemic has several causes. After two years of recession due to US sanctions, it feared the economic consequences of a «lockdown.» Vis-à-vis China, Tehran was anxious to prove itself as a partner in difficult times (e.g., air traffic was maintained long after most international airlines had already suspended their connections). On the domestic front, Iran wanted to avoid further protests so soon after the violently suppressed protests in November 2019 and the crisis of state in the wake of the shooting down of a Ukrainian passenger plane in January 2020. In addition, the Islamic Republic was keen to hold both the celebrations marking the anniversary of the revolution on February 11 and parliamentary elections on February 21, which it hoped would help it at least partly overcome its legitimacy crisis.⁷⁷

It was not until early March that the government took comprehensive measures – this was only after multiple governors had publicly spoken of the emergency situation in their provinces: Only then did Iran close schools, shopping centers, markets, and mosques, forbid cultural and religious events, and severely restrict travel between the provinces. (Previously only the universities had closed nationwide, and some provinces had closed schools.) At the same time, all land borders were closed (where neighboring states had not already done so). Most international airlines discontinued their connections to Iran.

After the first peak of new infections at the end of March, public restrictions were eased for the first time in April. Initially, «low-risk» factories, stores, and workshops were allowed to resume operations (in the capital, Tehran, restrictions were eased two weeks later in each case). With the exception of the border with Turkmenistan, Iran opened all national borders at the end of April. In May Iran then opened most of its schools and mosques, and in June the restrictions were largely lifted and cultural institutions such as cinemas and theaters were also able to resume operations.

Rather than taking nationwide measures, the government then began imposing targeted restrictions as needed. Since Iran would be dealing with the virus for a long time to come, President Rouhani said, the economic damage to the country should be minimized as far as possible in this way. Despite a resurgence in the number of cases, Rouhani argued, comprehensive closures were not necessary as long as the population adhered to the guidelines of the health authorities.⁷⁸

Economic factors played a major role in this change of course. Over time, the leadership in Tehran grew increasingly concerned about the consequences of the pandemic for the Iranian economy – and ultimately for Iran's political stability. The president even addressed this publicly. The economy could not be shut down, Rouhani said, because people would grow hungry and revolt.⁷⁹

⁷⁶ Radio Farda (2020b).

⁷⁷ These hopes were not realized, however, as voter turnout was the lowest ever.

⁷⁸ Donya-e Eghtesad (2020b).

⁷⁹ Aftab News (2020).

As part of this new approach, the first local restrictions on public life were issued on June 28.⁸⁰ Restrictions on public life in severely affected regions have been imposed again and again, especially since the start of the third wave of infections in mid-September; these include night-time curfews, travel restrictions, and the closure of many public facilities as well as schools and mosques.

The government announced a public mask mandate valid from July 5.⁸¹ Iran has not issued any new tourist visas since August 2020, but international air travel has generally remained possible. In October, in an effort to prevent Iranian pilgrims from participating in the annual Arba'een Pilgrimage to Iraq, and thus avoid bringing in the coronavirus from Iran's neighbor, the Iranian government ordered a brief closure of the border with Iraq. Since then, border crossings with Iraq have been closed repeatedly.⁸² Using a traffic light system introduced in summer 2020, the Ministry of Health ranks cities and provinces according to their coronavirus situation. As of mid-February 2021, 11 major cities have been designated as «red» and placed under comprehensive restrictions.⁸³ Since the pandemic has done so much to set Iran back in its efforts to overcome the sanctions-related recession, economic factors play a major role in considerations of anti-coronavirus measures. The country experienced another year of recession in 2020 in the wake of the coronavirus, with GDP declining by 5 percent according to the IMF. In Iran it is considered possible that the 2020 recession resulted in a decline of 15 percent of GDP.⁸⁴ The slight recovery has been postponed to 2021, but with projected growth of 3.2 percent, the Iranian economy will still be smaller at the end of this year than at the end of 2019.⁸⁵

Significantly, the coronavirus was able to achieve what US sanctions largely could not: a noticeable weakening of the domestic Iranian economy. Although it is too early to draw firm conclusions, multiple indicators suggest this is the case. For example, the ultimately far-reaching restrictions imposed by the government to stop the virus led to a significant decline in activity in all sectors, even in those that had previously been comparatively less affected by the sanctions (such as industry, agriculture, and parts of the service sector). Restrictions on the international movement of people and goods, especially at the regional level, led to a sharp drop in foreign trade and tourism. Although subsectors such as manufacturing are already showing signs of recovery,⁸⁶ the end result of these developments was a significant decline of 4.5 percent in non-oil GDP in 2020.

The economic statistics, such as those on the pandemic itself, do not especially stand out in a global comparison. Despite the sanctions having made conditions more difficult for Iran, its projected recession in 2020 (a drop of 5 percent of GDP) was only

80 At this time, for the provinces of Khuzestan, Hormozgan, Kermanshah, Kurdistan, Razavi-Khorasan, and Western Azerbaijan; see Government of the Islamic Republic of Iran (2020).

81 ILNA (2020).

82 IMF (2020a).

83 DW (2021).

84 Tabnak (2020).

85 IMF (2020b).

86 Batmanghelidj (2020).

slightly larger than those in the rest of the region: According to IMF estimates, economic output for the Middle East and Central Asia as a whole declined by 4.4 percent. In Saudi Arabia, for instance, the 2020 recession, which resulted in a 5.4 percent decline in GDP, was even larger than in Iran; the same applies to the UAE (6.6 percent) and Iraq (12.1 percent).⁸⁷

3.1 Sanctions and the pandemic

The US policy of maximum pressure had a major impact on the course of the coronavirus pandemic in Iran. US sanctions impaired Iran's ability to manage the pandemic in three ways: by compromising direct (primary medicinal) measures to combat the virus, by interfering with considerations of anti-coronavirus measures (in view of the sanctions-hit economy), and by limiting the potential scope of stimulus measures for protecting the economy against the economic consequences of the pandemic.

Inadequate supply of goods for medical use

Especially in the first weeks of the pandemic, Iran suffered from a shortage of goods for medical use against the coronavirus. For Tehran, several unfavorable developments came together in this context:

- the corona-related restrictions on the international movement of people and goods,
- the sharp increase in global demand for medical protective equipment and other goods needed to combat the virus, and
- the fact that sanctions-related problems in foreign trade exacerbated these two developments, especially with regard to securing pharmaceutical imports, which were affected by considerable shortages and price increases.⁸⁸

Although there has not yet been a definitive evaluation, various reports suggest that there were acute shortages in the early stage of the pandemic: According to these reports, Iran lacked protective masks and suits, disinfectants and cleaning agents, hygiene products, and medicines for the treatment of coronavirus patients. The disruption of international supply chains also led to shortages in the local production of medicines.⁸⁹ On May 12, 2020, Foreign Minister Zarif published a list of 30 «urgently» needed items.⁹⁰

The absence of an effective legal framework for handling humanitarian imports made its presence felt on this issue. To be sure, on March 6 the United States issued guidance on humanitarian trade that, in principle, promised sanctions relief.⁹¹ How-

⁸⁷ IMF (2020b).

⁸⁸ See section 2.1.

⁸⁹ See, among others, Batmanghelidj and Kebriaeezadeh (2020).

⁹⁰ Zarif (2020).

⁹¹ US Department of the Treasury (2020).

ever, Iran's ability to pay for relevant imports was undermined by its limited access to foreign exchange assets, which in turn was partly the result of US sanctions. Moreover, «certain» goods did not qualify for the general sanctions relief, and transactions were not permitted to exceed a USD 500,000 ceiling.⁹² All in all, then, there continued to be a great deal of uncertainty regarding humanitarian trade with Iran.

In the meantime, Iran intensified its efforts to replace the required imported goods with domestic products. This entailed not only expanding pharmaceutical production and its domestic suppliers, but also partially reorienting the production of other chemical and petrochemical industries toward medical goods, for example the manufacture of antiseptic solutions, disinfectants, and cleaning agents; packaging materials; and granules for medical protective equipment. The general recession meant that it was possible to take advantage of unused capacities for this purpose.⁹³

On May 19, the Iranian government announced that it was able to produce domestically all the goods needed for use against the coronavirus. In addition to being completely self-sufficient, the government said, Iran was even in a position to export some items, such as test kits.⁹⁴

In winter 2020/21, however, the sanctions made an impact once again, hindering Iran's efforts to procure vaccines. When the first vaccines arrived on the international market at the end of 2020, Iran faced the same difficulties as it had at the start of the pandemic, namely excess demand and sanctions-related problems in foreign trade, especially with financial transactions.

In November and December 2020, Iranian officials complained that US sanctions were preventing Iran from paying for vaccines. Concretely affected were, supposedly, pre-payments to COVAX,⁹⁵ though specific details were not given.⁹⁶ According to GAVI, the vaccine alliance taking part in COVAX, the United States had provided a special license for Iranian payments for vaccine procurement in December.⁹⁷ It is possible, then, that Iranian officials were referring to the basic problem of international banks' «over compliance» (see above). Banks do not release frozen Iranian assets even in cases where the US Treasury Department has issued special licenses.⁹⁸ The Iranian government also points out that the pending ratification of FATF reforms⁹⁹ is an obstacle.¹⁰⁰ And the politicization of the issue has further complicated Iran's sanctions-related problems with vaccine procurement.

92 Human Rights Watch (2020).

93 Financial Tribune (2020b).

94 BBC Persian (2020b).

95 Covax is an international organization that aims to provide developing and emerging countries with access to vaccines.

96 Reuters (2020b).

97 Motevalli (2020).

98 See section 2.1.

99 The OECD-based FATF has been calling on Iran to ratify anti-money-laundering and anti-terrorist financing measures for several years. The organization lists Iran as a «high-risk jurisdiction» and recommends «counter-measures»; see FATF (2020).

100 Golnaz (2020).

It was not until February 2021 that the first vaccine deliveries reached Iran in the form of the Russian vaccine Sputnik V. As of the end of February, Iran had ordered 2 million doses of Sputnik V and 6.2 million doses of the British-Swedish Oxford/AstraZeneca vaccine. In parallel, Iran is developing its own candidates, two of which – COVIran Barekat and Razi COV-Pars – are already in the testing phase.

Interfering with considerations of corona measures

US sanctions make another Iranian quandary even more difficult: How to choose anti-virus measures while taking into account the economic consequences? A good illustration of this was President Rouhani's appeal of late February 2020, when he cautioned the Iranian people that the coronavirus must not be allowed to have a negative impact on Iran's economic performance.¹⁰¹

Two factors spoke against taking comprehensive measures to restrict public life. On the one hand, Iran's political leadership had genuine concerns about further socio-economic hardship. On the other hand, against the backdrop of a legitimacy crisis that had just taken a turn for the worse, they also feared the potential consequences of a further deterioration in the economic situation: Further demonstrations and protests had to be prevented.

With regard to these economic considerations, US sanctions were hugely relevant. After all, Iran's socio-economic situation was extremely tense due to Washington's policy of maximum pressure.

At the same time, it should be pointed out that Iran's late response to the coronavirus was primarily due to the authorities' blatant underestimation of the pandemic. It was only when the need for comprehensive measures was finally recognized that the sanctions took full effect. The second and third coronavirus waves – characterized by political attempts to balance health and economic factors – were particularly affected by the impact of the sanctions.

Scope of stimulus measures to address the economic consequences of the coronavirus

Due to US sanctions, Iran's options for cushioning the economic blow of the pandemic are severely limited. After two years of sanctions, there are large deficits in the national budget, which has a negative impact on Tehran's economic room for maneuver.

The Iranian government has launched various economic stimulus measures. Among other things, it increased the budgets for healthcare and unemployment benefits. In addition, it sent cash payments totaling USD 400 each to 3 million Iranians without regular income, mostly day laborers. Private banks have been encouraged to provide government-subsidized low-interest loans to businesses and households affected by the crisis. Together, these measures amount to 7 percent of GDP. Tax

¹⁰¹ Khabar Online (2020).

payments have also been deferred, at least temporarily, at a cost of 6 percent of GDP.¹⁰² In November 2020, President Rouhani announced plans to support 30 million low-income Iranians with payments of IRR 1 million (about USD 4) per month until the end of Iranian year 1399 (March 20, 2021).¹⁰³

The government has dedicated 20 percent of its budget for the current fiscal year to managing the coronavirus crisis.¹⁰⁴ Meanwhile, the deficit in the state budget continues to grow due to the combination of increased spending and lower tax revenues.¹⁰⁵ The decline in international crude oil prices during 2020 further exacerbated the situation.

Iran is financing its stimulus measures with a combination of government financial reserves, government bonds, and the sale of public assets. Approximately EUR 1 billion from the National Development Fund are to be added to the government budget in order to combat the coronavirus – this comes on top of previous EUR 2.8 billion in support. In addition, Iran plans to issue government bonds, known as Sukuk bonds. Finally, the government has begun to list public companies, banks, and insurance companies on the Tehran Stock Exchange on a larger scale. This undertaking began with the April 15, 2020, sale of shares in 15 companies, including 12 percent of one of the country's largest business groups, the Social Welfare Fund. Shares in four state-owned oil refineries are to be sold in the near future.

Meanwhile, members of the Iranian government have publicly declared that only a fraction of the promised funds have so far reached those responsible in the health sector. For example, only 30 percent of the announced withdrawals from the National Development Fund had been made available to the Ministry of Health by the end of June 2020, according to a deputy minister.¹⁰⁶ In the past, there have been repeated cases of corruption regarding the use of public funds, including in connection with the provision of funds to mitigate the consequences of sanctions.

None of this changes the fact that the Iranian economic stimulus program is presumably (significantly) smaller due to the sanctions than it would be in a theoretical scenario without sanctions. Not only would the deficit in the national budget be smaller without sanctions and economic recession, but Iran's economy would likely also have been stronger at the onset of the pandemic.¹⁰⁷ If the overall economy were stronger, some of the measures would either not have been necessary to the current extent (e.g., cash payments to the needy, subsidized loans, etc.) or could have provided a greater stimulus to the economy in relation to the resources used.

102 IMF (2020a) and Zimmt and Fadlon (2020).

103 Official website of the President of the Islamic Republic of Iran (2020).

104 Reuters (2020a).

105 Khajehpour (2020).

106 IRNA (2020a).

107 In April 2018 the IMF projected Iranian GDP growth to be 4.0 percent in both 2018 and 2019.

3.2 Sanctions and international coronavirus aid

Iran's access to international assistance to deal with the coronavirus pandemic remains an explosive issue. Foreign Minister Zarif, who previously spoke of «economic terrorism» in reference to the sanctions, now accuses the United States of «medical terrorism» as well.¹⁰⁸ Indeed, US sanctions are impairing Iran's ability to manage the pandemic in several ways.¹⁰⁹

Iran not only used the coronavirus crisis as an opportunity to push for an easing of the US sanctions regime; in March 2020, Tehran also applied for a USD 5 billion emergency loan from the IMF – the first time it has done so since the 1979 revolution. The United States has blocked the grant thus far. In order to be able to access the emergency loan despite the restrictions on international finance, Iran offered to channel the IMF loan through either INSTEX or SHTA.¹¹⁰ At the beginning of the pandemic, Iran also requested international support in the form of goods and equipment (rather than money).¹¹¹

Over the past year, various aid shipments have arrived in Iran. The country has received, *inter alia*, support from Azerbaijan, China, France, Germany, Japan, Kuwait, Russia, South Korea, Turkey, Qatar, and the United Arab Emirates (UAE) – in the case of the UAE, the aid was accompanied by political rapprochement with a geopolitical rival. Multilateral assistance came from the World Bank, WHO, and the United Nations Development Programme, among others.

The question of an IMF emergency loan clearly revealed the negative impact of US sanctions policy. On the face of it, there is no valid formal – and as such openly communicated – reason why Iran's request should be rejected. No one questions the extent and consequences of the coronavirus crisis in Iran. Moreover, unlike, for example, most regular loans from the IMF, emergency loans are not subject to far-reaching conditions, such as structural reforms. Iran's willingness to channel disbursements through INSTEX or SHTA would also help ensure that IMF funds do not support structures of domestic repression and are not used as a tool of regional power politics. A formal decision by the IMF Executive Board is admittedly still pending. But it has been over a year since Iran requested a loan – much longer than the official two-week window in which the IMF aims, according to its own statements, to decide on emergency loans. The fact that the IMF board is delaying the vote on the Iranian request demonstrates the power of the US policy of maximum pressure. Efforts to bring about a political solution behind the scenes have so far failed. Nor did the Biden administration ensure a quick resolution.

Still, it is difficult to make a conclusive assessment of the connection between sanctions and international aid because, in Tehran, the question of international aid has also become the subject of internal political power struggles. Whereas the Rouhani government demanded aid from abroad, partly in order to bring about a relaxation of

¹⁰⁸ Zarif (2020).

¹⁰⁹ See section 3.1

¹¹⁰ Financial Tribune (2020a).

¹¹¹ See section 3.1.

the US sanctions regime, his domestic political rivals pursued the opposite. The Revolutionary Guard in particular – following the crackdown on November 2019 protests and the scandal surrounding the shooting down of the Ukrainian passenger plane in January 2020 – feared a further loss of face if people got the impression that the Guard depended on foreign aid to protect the Iranian population. A political observer in Tehran¹¹² passed judgment: This was «ideology first, people’s health and lives second.»

The ongoing power struggle over emergency humanitarian aid between the government and the Revolutionary Guard has led to grotesque outcomes. At the end of March 2020, for example, a delegation from the non-governmental organization Médecins Sans Frontières (Doctors Without Borders), which was already in Iran with all of its equipment in order to set up a mobile clinic, was forced to leave the country without having achieved anything after an intervention by security forces controlled by Supreme Leader Khamenei.¹¹³ These developments left potential international donors with questions about the seriousness and feasibility of Iranian requests for aid.

As the pandemic progressed, further questions arose about the seriousness of the political approach to the coronavirus. Khamenei, for example, banned vaccines from the United Kingdom and the United States in January 2021, insinuating that they were «completely untrustworthy. It’s not unlikely they would want to contaminate other nations.»¹¹⁴ In practice, Iran took a comparatively pragmatic approach to this ban, declaring that the British-Swedish Oxford/AstraZeneca vaccine was a purely Swedish product.¹¹⁵ Nevertheless, the politicization of the vaccine issue significantly undermines the credibility of Iranian requests for assistance.

In this context, the fact that Iran is reportedly unwilling to use special purpose vehicles such as INSTEX or SHTA for smaller transactions in individual cases also comes into play. This attitude is presumably politically motivated. After all, Tehran does not want to allow Europe or Switzerland to enjoy a perceived political victory (the «functioning» of INSTEX or SHTA) unless the special purpose vehicles are actually resilient instruments for humanitarian trade with Iran.

112 The political scientist Sadegh Zibakalam; see DW (2020).

113 Nominally, the organization was accused of espionage activities by Khamenei’s circle; see Radio Farda (2020a).

114 Human Rights Watch (2021).

115 See section 3.1.

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Dual Pressures on Iran US Sanctions amid the Coronavirus Pandemic

The international community often uses economic sanctions to dissuade states from pursuing confrontational policies that endanger peace. Yet sanctions usually fail when they are not embedded in a clever diplomatic strategy. In Iran, for instance, the US sanctions currently in place amid the coronavirus crisis have given the authoritarian rulers the opportunity to obscure their own failures.

This study by Iran expert David Jalilvand investigates the extent to which the Iranian population, especially marginalized groups, has been affected by the precarious state of healthcare in the country in light of the pandemic – and beyond that, whether the sanctions are missing their mark.

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