Where We Stand on the Syria Sanctions [Free article]

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In this article The Syria Report addresses key issues raised in the debate over western sanctions on Syria and makes a number of policy recommendations.

Increasing voices in Europe are calling for the rehabilitation of Bashar al-Assad and accommodating Moscow’s demands to finance the reconstruction of the country. This would mean lifting sanctions imposed on the Syrian regime and its cronies as well as those that target specific sectors of the economy.

Actions taken by the U.S. Administration and by the European Union since November 2018 have tightened sanctions, while legislative progress on passing the Caesar Act in the US Congress is set to raise the stakes on the issue.

It may be therefore time to provide an assessment of the impact of these sanctions and of what should be done in the coming weeks and months.

What the sanctions are not responsible for

While some voices blame the sanctions for almost all Syria’s economic ills, the single most important reason for the dramatic economic and social conditions is the largescale destruction of the country over the course of the past eight years, mostly, although not exclusively, at the hands of the Syrian regime and the Russian air force, who are responsible for the destruction of half of the cities of Aleppo, Homs and Deir-ez-Zor, and of dozens of smaller cities and towns across the country.

In these cities and towns, much of the physical infrastructure, production capacity and housing units have been wiped out. Medical facilities have, among other key assets, been specifically targeted by the Syrian and Russian air forces. The Syrian society and its economy pay and will continue to pay for many years ahead the price of this destruction.

Of course, the U.S., with its destruction of Raqqa, and Turkey, with its facilitation of the looting of Aleppo’s manufacturing base, also hold a major responsibility, in addition to Iran, armed opposition groups and armed groups from various other sides.

Other factors explain these terrible economic conditions, including the flight of capital and of the middle class, the massive depreciation of the Syrian pound, the fragmentation of the country into various areas of control, the monopolies and oligopolies held by powerful business figures in the domestic market, and the ubiquitous role and presence of the regime’s corrupt networks.

Policies by the government, with the complicity of its foreign allies, have been no less detrimental.

In 2014, the government renewed for 20 years the licenses of the country’s two mobile phone operators at terms that strip the Syrian treasury and by extension the population of much needed funds. The Syria Report has calculated that between 2015 and 2018 some SYP 200 billion (equivalent to around USD 450 million) have been handed to the shareholders of these two companies at the expense of the treasury. There are no financial or legal justifications for the change in the license terms; only the greed of shareholders of these companies, i.e., regime cronies or people associated with them, enabled it.

Similarly, the government has ceded to Russia’s Stroytransgaz 70 percent of all the revenues generated by the production and export of phosphate. This is hundreds of millions of dollars that the
government is giving up annually, for the next 49 years, for the sake of satisfying the greed of oligarchs close to Moscow, again at the expense of the treasury and the Syrian population at large.

One could add to these policies the reduction in subsidies on various oil products that have pushed up significantly consumer prices or the funds the government has allocated to the luxurious Marota real estate development at the expense of much more needed social housing projects that are deprived from cash.

All this does not answer the question of whether sanctions should be maintained and under what terms, but they are important to rationalize the debate and understand that sanctions are far from being the main reason for Syria’s economic woes.

Two types of sanctions

Western sanctions imposed on Syria since 2011 can be divided into two broad segments: those targeting individuals and entities associated with the regime and those aimed at business sectors.

A few hundred Syrian individuals and entities are under sanctions from the U.S. and EU either because they are core members of the regime’s political, military and security bodies, or because they provide support to the regime in a way or another.

In January, the EU sanctioned 11 individuals and five companies, most of which are involved in Marota City, an upscale real estate development in Damascus slotted for construction on land where thousands of disenfranchised opposition supporters had lived, and from which they have been expropriated and expelled. In the weeks and months ahead more business figures could be blacklisted because most of the new war lords and recently-emerged investors, many of whom serve as fronts for regime individuals, are still omitted. Except for regime supporters, few voices call for removing these sanctions.

The other type of sanctions involves targeting business sectors such as oil, electricity, information technology and banking, among others. They involve, for instance, a ban on the export of power turbines and their spare parts to Syria, a ban on the provision of telecommunication equipment or the import of Syrian oil products.

This set of sanctions is the most disputed because it contributes to shortages of goods and services in the market and is an obstacle to trade and investment and, hence, to economic wellbeing.

Of course, contrary to the Iraqi scenario, these are not UN-imposed sanctions and Syria still trades with dozens of countries around the world and as such can theoretically procure almost any product it needs from other countries. Large exemptions also exist for western agricultural, pharmaceutical, and other non-sensitive goods.

Claims that sanctions strengthen the illegal and corrupt networks of the regime are also exaggerated. These networks always existed and prior to 2011 and the sanctions, they were already gaining an increasing hold on the economy.

Also, in many areas the impact of the sanctions is not as meaningful as the Syrian regime pretends. For instance, while the government cannot buy electric power turbines from western countries it could still procure them from Russia or Iran. It does not, not because of the sanctions, but because it does not have the financial means to do so, and its allies will not fund it.

However, the qualitative edge of western technology and know-how and the weight of the dollar and euro in international financial flows are so important that western sanctions impact Syria’s economic relations with all the world, even with the regime’s allies.

Banking transactions have been particularly affected as western financial institutions have become very reluctant to conduct any business with Syrian, or Syria-related, entities. As a consequence, Syrian importers need to go through the Lebanese banking system or use the Hawala system, which leads to increased transaction costs and higher end prices for local consumers.
Foreign businesses are also afraid from entering the Syrian market out of fear that they could be targeted by sanctions or because of reputational risks. The result is a shortage of much needed investments.

In November 2018, OFAC, the sanctions arm of the U.S. Treasury, warned that it would “aggressively target” all actors of the maritime industry, including shipping companies, insurance firms and banks, that are involved in transporting oil products to Syria.

This had an immediate impact. It contributed to the shortages of energy products we currently witness across Syria, which are generating increased hardship, including making it more difficult for Syrians to heat themselves or cook. These shortages also induce higher transport costs and consumer prices. There are obviously various other reasons for the oil shortages, including the corruption of regime networks and the higher demand due to the cold winter, but the American action is key here.

This measure, however, also hit the government’s pocket. Iranian supplies, which represent the bulk of Syrian oil imports, are probably the largest source of fiscal revenues. Indeed, Tehran provides the oil on a credit basis to Damascus, which sells it for cash to households and businesses, reaping up to USD 1 billion in annual revenues, which represent anywhere between 25 and 33 percent of all government income. These shortages highlight the broader sanctions dilemma. Resuming oil supplies would help the regime enrich itself again, but it would also reduce hardship for ordinary Syrians.

Beyond this specific measure, most indicators point to the fact that the net impact of sector-based sanctions on the economy as a whole is negative - even if their role in the country’s economic woes is far from being as meaningful as the regime pretends.

Do sanctions serve a political purpose?

The question then becomes whether sanctions, whose formal objective is to extract political concessions, are worth it. If western sanctions had an impact on the population as dramatic as, say, those imposed on Iraq after 1991, there should be no debate on the subject. Sanctions should be lifted outright, without delays or conditions. That is obviously not the case in Syria, but even then, given that sanctions still harm the population, there should be convincing arguments for maintaining them.

We believe that we should apply two criteria as we consider our position on the issue. First, the lifting of sanctions should be tied to attainable and realistic political objectives that involve long-term benefits to the population. Arguing, for instance, that they should not be removed until, say, Assad leaves power would render them useless. Second, there should be a convincing argument that sanctions can help extract concessions. If there are no indications that the regime could make concessions, the viability of the sanctions would have to be questioned.

From a historical perspective, there is limited evidence that sanctions lead to radical political change and in the Syrian case very few would argue that they could lead to a fall of the regime. However, we believe that concessions from the regime could be gained on a range of issues, even if that does not happen in the short-term. From a Syrian national interest perspective, two come immediately to mind: the fate of the hundreds of thousands of people who have disappeared or are sitting in the regime’s dungeons and the millions of refugees who seek security guarantees before returning home.

Raising these two issues serves to highlight key humanitarian and political demands, but also the fact that while the debate on the sanctions mostly addresses their impact on the Syrians residing in regime-held areas, there are other categories of the population whose interests need to be taken into account.

There are also indications that sanctions can help force the regime into concessions.
First of all, there is the insistence with which the Syrian authorities, but also Moscow, push for lifting sanctions. The regime and its allies want their removal more than anything else. The Syrian regime wants to enable its cronies to access again international financial markets directly or through their fronts, while Iran and Russia see a potential reconstruction drive as a business opportunity for their companies. Today, even regime supporters acknowledge that sanctions serve as a leverage.

Then, Moscow has shown that when it wants to it can extract significant concessions from the regime. When it comes, for instance, to granting its oligarchs access to the lucrative phosphate mines near Palmyra, Moscow had no difficulties forcing Damascus’ hand. At the political level, the numerous decisions taken at the Astana tripartite meetings with Ankara and Tehran show that Moscow can impose its will on its Syrian ally. There is no reason to believe that Moscow cannot force Damascus to make concessions that would improve the living conditions of all Syrians, those living inside and outside, by providing information on the disappeared and serious guarantees to the refugees.

Finally, an important aspect of the debate is the lack of alternatives. In other words, except for sanctions, there are very few leverages left to extract any form of concessions from the regime. Returning diplomats to Damascus could be one, although the extent of the concessions that Damascus would be ready to make on the issue is not clear. As to reconstruction funds, they could only come after sanctions are lifted. It must be clear that lifting sanctions unconditionally would be an enormous economic, financial, and political boost for the regime and if that were to happen, we would have to forget about any prospect for a return of the refugees, for information on the disappeared, for freedom for the detainees, and for any form of even very modest political reform steps.

**What should be done?**

We believe that the following set of measures should be adopted:

- Define a set of clear objectives tied to a gradual and selective lifting of sector-based sanctions. Use them to extract political concessions on the fate of the detainees, on providing security guarantees for the return of refugees and on reversing the largescale expropriations and the real estate development projects affecting people’s property rights. Of course, all these measures should involve clear monitoring processes.
- Reverse measures that harm most the population, such as the recent measures on shipping oil to Syria, and facilitate the movement of goods that deserve exemption, including all humanitarian items as well as spare parts for key civilian infrastructure.
- Keep the sanctions targeting individuals and entities and expand them to include the elite that emerged during the war and that continues to loot the country and profit from its closeness to power to amass wealth at the expense of the population.
- Maintain measures on the banking sector despite the negative effect on regular account holders. Removing financial sanctions would restore venues for money laundering, make it easier for the regime to finance its militias and amount to surrendering the last remaining important negotiating card against it.
- Capitalize as much as possible on the few other cards against the regime. In particular, no form of diplomatic ties should be re-established with Damascus. It would be senseless to return diplomats without any concession from the regime because it would entail giving up a negotiating card for free. Before they were withdrawn, western diplomats had remained in Damascus for up to one year after the beginning of the uprising without any concessions from the regime to show for.