

RECONSIDERING US SANCTIONS POLICY AMID THE CORONAVIRUS CRISIS AND THE OIL MARKET CRASH

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For energy markets, the profound economic disruptions caused by the coronavirus have broken the arrangements of the OPEC+ oil exporters to limit production, as Russia and Saudi Arabia failed to agree on production caps. Oil prices plunged as producers ramped up output, made worse by the demand shock created by the spread of Covid-19 and resulting plunging global economic activity as countries have sought to cope with the widespread infection and mortality.

The global economic shocks and humanitarian crises have left US sanctions policy in a deeply uncomfortable spot. The United States has prioritized using sanctions as a means of creating leverage for resolving myriad foreign policy crises, arguing in part that using sanctions is a more humane option than the alternatives. The United States has long argued that without sanctions, some problems would either get far worse, with their own unpleasant consequences (such as human rights violations, regional aggression, and acts of terrorism), or would be met by US military force instead. Though some would disagree with the notion that sanctions are ever moral or just, it is on this basis—taken in combination with the presence of humanitarian exceptions to sanctions—that US policymakers across the political spectrum have asserted that their approach is appropriate and consistent with humanitarian values.

Problems Created by the Current Situation

The current international situation undermines the US contention that sanctions are comparatively humane policy tools and justified in use, especially as relates to sanctions imposed against Iran and Venezuela.

First, though Trump administration officials have sought to rebuff charges of a humanitarian crisis created by sanctions by pointing to the existence of sanctions exceptions and humanitarian mechanisms, it is irrefutable that US sanctions have made conducting even humanitarian transactions far more difficult with those countries subject to the most stringent of sanctions (such as Iran and Venezuela). By isolating those countries from international financial and other service networks generally, the United States has removed any incentive for companies and banks to maintain the sorts of ties necessary to facilitate trade with Iran of any goods whatsoever. Though companies and banks may conduct legitimate trade with Iran—as defined by the United States—they are not required to do so and thus must find it in

their economic interest to maintain these ties in the face of all manner of pressure from the United States and interested civil society groups. Few find the risks and costs worth the effort. The United States implicitly acknowledged this when it agreed to set up a mechanism for humanitarian trade with the Swiss government in late 2019; if normal sanctions exceptions for Iran were working properly, such a mechanism would not be needed and frequently cited by the sanctions policy's defenders as proof of Trump administration morality.

Second, US sanctions policy is all about depriving countries of the resources needed to engage in illicit conduct, which automatically affects the availability of resources for legitimate trade. The US argument has long been: starve the regimes of funds and you can deny them the ability to engage in bad acts while simultaneously incentivizing negotiations on a solution. Opponents of sanctions have argued that this is a form of collective punishment, given how such policies deprive governments of the ability to fund all manner of other, legitimate activities such as education, development, and—importantly in this context—health. But, as has long been argued by sanctions proponents, revenues are inherently fungible and money used on development could also be used for terrorism or whatever form of illicit conduct deemed objectionable. They have argued that if a country wishes to spend on education, development, and health, it only has to halt its more objectionable conduct.

As a general rule, this may be a legitimate defense of the use of sanctions.

The problem today is that the implications of the coronavirus dwarf the normal budgetary choices made by governments. The costs of fighting the virus, amid businesses closing and populations entering lockdown, are well beyond the ability of many individual governments to bankroll. Even the United States will face a sharper national deficit to pay for stimulus packages and social safety net protections. For countries denied the ability to generate most national revenues, the implications of this problem are even more dire.

It is here that oil market activity becomes important. The ability of Iran and Venezuela, for example, to generate any national revenue is explicitly linked to residual oil sales, now going for a fraction of the price fetched a month ago and which were already targeted by US sanctions tools. While an oil market price collapse at the start of 2020 could have been greeted by sanctions advocates in managing several cases—Iran, Venezuela, and Russia—it is now a potential contributor to significant humanitarian catastrophe, in at least the Iran and Venezuela situations.

Third, and more philosophically, it is very difficult to argue that sanctions are intended to serve the best interests of the international community on the whole and the countries being targeted in particular if they are also perceived as worsening an unrelated humanitarian crisis. As many Iranians have noted, the US message is consistently akin to “we only hurt you because we love you,” which does not often impress. A similar dynamic may take place with respect to Venezuela, perhaps even more so than in the Iran case, as the US sanctions policy there is explicitly in support and defense of the rights and freedoms of the Venezuelan people.

For these reasons, US sanctions policy has come under attack by the targets of the sanctions themselves as well as by interested observers the world over. Naturally, the perspective of the sanctions targets is biased against the use of sanctions in any event and, though



it merits acknowledgment, it is not unreasonable for the Trump administration to weigh their opposition on a calibrated scale. However, the number of those states and figures now opposing US sanctions policy is growing. In addition to traditional antagonists of US policy such as Russia, figures such as the Secretary General of the UN and members of the US Congress are now calling for the suspension of US sanctions for the duration of the coronavirus crisis.

Realistic Expectations with Respect to US Policy

Ultimately, it is unlikely that opposition to US sanctions policy and criticism of its humanitarian implications will have much of an effect on the Trump administration, regardless of the source. The Trump team has responded slowly in the past to charges of negative humanitarian consequences from its sanctions, underscoring that responsibility for any harm done to target country populations lies in the hands of the associated government. With respect to Iran, its rhetoric since the crisis began has been consistent with this message, which has been reinforced with near-daily press releases to this effect [recently](#). Its actions have matched its words; since the coronavirus crisis began, the United States has imposed sanctions on a [variety of entities and individuals](#) facilitating Iran's [petroleum-related trade](#) as well as those [associated with the IRGC](#) in Iraq, and given no indication that it is contemplating a pause. Likewise with Venezuela (though there has been less of a public debate over US sanctions against the country), the administration has offered little to suggest that it is prepared to change its approach due to its humanitarian considerations, as its [indictments of Nicolás Maduro and other Venezuelan officials](#) on March 26 demonstrate. On March 31, however, the administration outlined a conceptual approach for government transition that would involve sanctions relief.

To some extent, US commitment to its sanctions course follows a strategic logic: sanctions were imposed for specific reasons and, in the absence of complementary steps by the countries so targeted, it is difficult to countenance changes in those sanctions. Were Iran to offer to suspend its nuclear expansion or Maduro commit to talks with the opposition to resolve their political impasse, perhaps the Trump administration would feel differently about the application of its current sanctions (as the notional transition plan makes clear in the case of Venezuela). But this is a theory that has yet to be tested.

Moreover, some in the Trump administration may see an opportunity—particularly in the context of low oil prices—to press home the advantage of sanctions against their targets. As one of the main objections to Trump administration oil-related sanctions has been the risk they might pose to the overall market and price stability, the current situation could be seen as an ideal time to increase the economic pressure on the sanctioned governments in particular without fearing the economic downside of higher oil prices for consumers and resulting international backlash. The [Wall Street Journal](#) reported March 19 that the Trump administration was considering imposing oil sanctions on Russia in order to drive prices up, suggesting that—at least in some circles—there is perceived oil sanctions pressure to spare. It is highly unlikely that the United States will take the step given the President's opposition to the expansion of Russian sanctions, but its consideration demonstrates that Trump officials see opportunities being created by low oil prices.

On a practical level, it is also unclear what a broad-based sanctions suspension would achieve



if implemented. A time-limited suspension would not encourage firms or banks to change their business approaches to sanctioned jurisdictions, especially given turmoil in global markets more generally. Companies or banks would have to agree to establish business links with sanctioned jurisdictions for short periods that are unlikely to be profitable, could be reputationally damaging, and come potentially at the expense of other business opportunities that do not have the same complications. This is unlikely to happen.

Recommendations

As laudable as suggestions for a broad-based US sanctions suspension may be in principle, the fact that they are likely to fall on deaf ears within the US government is a major problem. So long as advocates focus on suspension as their means of achieving any humanitarian relief for Iran, Venezuela, or other sanctions targets, they are going to constrict channels for a potentially more fruitful and productive conversation about how to adjust US sanctions policy to minimize its especially deleterious effects in the current crisis. They also give sanctions advocates easy outs: rather than having to defend against reasonable, prudent, and productive solutions, sanctions advocates can tar suspension advocates as shameful appeasers of whatever sanctions target is their priority.

The author fully supports the idea of a suspension of US sanctions against Iran and also believes that it could quickly be executed as part of a general and mutually face-saving agreement with the Iranians for both sides to rejoin the Joint Comprehensive Plan of Action (JCPOA) and ratchet down tensions. Iran has maintained since May 2019 that it would implement its obligations under the JCPOA fully if the United States were to do so and, in the current crisis, there is no reason to believe Iran would not do so now. The author would also agree with providing sanctions relief to Venezuela while capitalizing on the situation to begin an effective dialogue between Venezuela's various factions. However, these scenarios seem implausible in the current environment, not least because of the ongoing coronavirus crisis itself. The question therefore is how the United States can most effectively and immediately generate humanitarian sanctions relief on the assumption that broader solutions to these crises will have to be found at a later date.

Within a more constrained set of options, the United States should consider modifications to its existing sanctions policy to make humanitarian trade more practical and with immediate benefit. [Esfandiyar Batmanghelidj, who promotes business diplomacy between Europe and Iran](#), identified three common sense steps the United State should take with respect to Iran, two of which could apply to all presently sanctioned jurisdictions. The Trump administration should:

1. widen the scope of the existing humanitarian exemptions to cover the full range of items and equipment necessary to combat the disease;
2. provide comfort letters to key international banks involved in the commercial import of medicine and medical equipment; and
3. ease access to its existing foreign currency reserves, in the case of Iran.

This is not the limit of what is possible or probably necessary to make a dent in the humanitarian problems presently enflamed by US sanctions. Simply providing “comfort letters” (which



essentially state that so long as entities operate within approved lanes of business, no sanctions would be applied) to banks would be unlikely to facilitate business with the companies that also would be necessary to engage in the trade (including shipping companies, manufacturers, insurers, etc.). Instead, the United States should work to identify a complete chain of entities—from manufacturers to shippers—that would be necessary to facilitate transfers of humanitarian goods to sanctioned countries. It should then issue similar comfort letters for every entity in the chain. Since the goods in question are likely covered by existing humanitarian exemptions, there would be no need for a deadline for completion of the transactions, which would remove a business operations risk of needing to curtail trade in line with rigid timetables.

This would not solve the problem of the underlying revenue problem that makes purchasing such goods so difficult. Fortunately, the targeted countries do have some available funds that could be used, including national reserves held abroad. Additionally, there are international actors that can make loans and grants to facilitate such purchases. The only issue would be the international actors' own sense of sanctions exposure and vulnerability to US political pressure to avoid such transactions. These include the IMF, the World Bank, and international charities. Legally, there are limitations on how the United States can and will vote in the international fora identified; the United States is required by law to vote against the extension of loans made by international financial institutions (IFI) to Iran, for example. Changing law is implausible in a short period of time, but also unnecessary, as the United States no longer has a majority of voting share rights in these institutions. So long as the United States does not lobby against such loans, they can be approved and should be.

Of course, the United States is not the only impediment to IFI lending. The IMF recently [turned down](#) a request by Venezuela for a \$5 billion loan on grounds that the legitimate government of Venezuela is unclear at this time. (It may also have in mind the extraordinary debt position of the country and low likelihood of repayment.) However, there are solutions to such problems if states and organizations are prepared to work on them. For example, in Venezuela's case, an argument could be made that both the Maduro regime and the Guaidó opposition government both flow from the same constitutional state. In fact, the dispute is over who—based on that constitution—is permitted to run the government rather than whether the constitution itself is in effect. If both Maduro and Juan Guaidó were prepared to set aside their differences for the explicit purpose of together seeking a loan from the IMF on behalf of the country, this might prove to be persuasive, especially if key states, such as the United States, were prepared to accept the argument.

In the end, though, much of the decision about how to change or channel US sanctions policy will come back to a fundamental question: Is the coronavirus a reason to abandon business as usual? The Trump administration may disagree, but it should bear in mind that its failure to make reasonable accommodation in light of the gathering international opprobrium surrounding US sanctions policy is itself destructive to US interests in general and those policies in particular. On the general point, as the author and others have written about elsewhere, the United States was already under some degree of international criticism for perceived reckless use of sanctions instruments. Sanctioning Venezuela and Iran in the midst of a global pandemic will not soften this criticism and will potentially add moral heft to geostrategic arguments against maintaining so many trade and financial linkages with the



United States that are vulnerable to sanctions pressure. On the specific matters of Iran and Venezuela, the United States may find its partners taking stands directly contrary to its own. The EU, for its part, [has announced](#) an intention to provide 20 million euro in assistance to Iran and to support its appeal—and that of Venezuela—for IMF funding. Taken in combination with long-standing frustrations with US policies and the risks those policies engender, refusal by the United States to change its approach in the face of a humanitarian catastrophe risks contributing to sanctions further diminution as an accepted instrument of foreign policy and incentivize efforts to find work-arounds to that policy.

Last but not least, failure to address the systemic issues created by US sanctions policy and made worse by global circumstances runs the risk of contributing directly to the deaths and injury of millions of people, and the prolongation of an economic crisis the president is now determined to bring to a close by mid-April. Avoiding mass death is a goal that, in normal circumstances, US presidents would like to support even where adversaries are concerned. After all, a little less than two years after dubbing Iran part of the “Axis of Evil,” the [United States was sending aid to Iran](#) following the Bam earthquake of December 2003. This is an example Donald Trump would be wise to emulate. But if for no other reason, the potential threat of the coronavirus outbreak being prolonged with continued global economic consequences should encourage him to do so.

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