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# Punishing the Regime, Protecting Syrians: The Dilemma of Sanctions on Syria

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Vehicles queue in a long line for oil and propane tanks in the town centre of Hama following oil shortages in Syrian regime-controlled areas - Syria September 2020.

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***\*\* This paper is part of an ARI series seeking to generate debate over the effectiveness of international sanctions on Syria and their impact on Syrians and the future of the country.***

A number of countries, notably the US and European countries, have imposed sanctions on the Syrian regime in response to its brutal repression of its population and its repeated violations of international law. The scope of sanctions expanded since the entry into force of the US Caesar Act in June 2020 to include foreign partners of the Syrian government.

So far, sanctions have failed to change the Syrian regime or modify its behaviour. This is because of a lack of a real strategy to ensure that sanctions impact the authoritarian structure in Syria and the regime's extensive experience in coping with and overcoming sanctions. Meanwhile, despite the stated objectives of minimizing harm to the population, many indicators show that sanctions, including the Caesar Act, are hitting ordinary Syrians the hardest.

The international community should explore options outside the dichotomy of maintaining sanctions in their current form or lifting them completely. In particular, a real discussion should be had on how to address the sanctions' weak impact on regime behaviour while also adopting measures to counter their negative impact on the population.

## Expanding sanctions on the Syrian regime

On 29 April 2011, the United States imposed the first set of sanctions on the Syrian regime as a punitive response to its brutal repression of the peaceful demonstrations that had erupted in March 2011, calling for freedom, dignity, and human rights. These sanctions froze the assets of top-ranked Syrian officers and imposed travel bans on them. The following month, the EU suspended all cooperation programmes and agreements with the Syrian government. In August 2011, the United States imposed additional sanctions including a ban on all transactions involving Syrian petroleum or petroleum products.



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Although the main targets of sanctions were military and security officials and entities, the EU extended the list starting in September 2011 to sanction the Central Bank of Syria, public banks, investments in the Syrian oil and gas sector, regime cronies, and pro-regime activists such as members of the so-called Syrian electronic army. Turkey also imposed trade sanctions, and the League of Arab States agreed to freeze Syria's assets in Arab countries and end all financial transactions with the Syrian government (though its decisions are not compulsory on its members).

The imposition of sanctions aimed to weaken the regime's military and economic foundations by targeting its key entities and individuals located mainly inside the country. The scope of the application of sanctions expanded in December 2019 when President Donald Trump signed the Caesar Syrian Civilian Protection Act that came into force on 17 June 2020. Whereas previous sanctions mainly targeted entities inside Syria, this Act authorized sanctions on any foreign individual and entity with business connections to the regime.<sup>1</sup> This Act was also a direct threat to the regime's allies and supporters, including Russia, and could be read as a warning to the Gulf and some European countries that might be tempted to normalize relations with the Syrian regime and enter into reconstruction contracts.

The Caesar Act aims to sanction transactions related to the military, oil and gas sector, as well as any government-led reconstruction and speed up the regime's already deteriorating economy by limiting its access to international financial networks, including those related to its allies. The Act also raises the economic burden on partners of the Syrian government as they have to intensify their efforts to find ways to avoid being designated by the US Treasury's Office of Foreign Assets Control (OFAC), leading them to rethink and minimize their business relations with the regime.

Despite the stated objectives of targeting the regime and minimizing harm to the population, many indicators show that sanctions, including the Caesar Act, are hitting ordinary Syrians the hardest. The impact is obvious in the energy and financial sectors as most people inside Syria struggle to access oil derivatives such as diesel and encounter difficulties in conducting financial transactions notably receiving remittances that have become one of the main sources of income for



many Syrian households. The Act also has created a “chilling effect” among foreign companies that prefer to de-risk and avoid dealing with any Syrian individual or entity, even in non-sanctioned activities or sectors.

## Regime mechanisms to overcome the impact of sanctions

Since 1979, western countries have imposed different sets of sanctions on the Syrian regime, which has only provided it with accumulated “experience” in dealing with the current economic bans. The regime has developed different mechanisms to survive sanctions and mitigate their impact on the structure of power in Syria.

At the core of these mechanisms was external support from strategic allies, notably Iran, and to a lesser extent Russia. Iran, for instance, has provided the Syrian regime – in addition to unlimited military support – with essential goods and services, mainly oil, during the conflict. All non-military support is made through credit lines, which means increasing Syria’s financial debt. Iran has reportedly shipped oil to Syria with an estimated annual amount of \$1.7 billion US dollars between 2013 and 2018.<sup>2</sup> Assuming the same pattern in 2019 and 2020, the total value of crude oil exported from Iran to the Syrian regime during the conflict would be \$13.6 billion US dollars. Additionally, Iran provided \$2 billion US dollars in 2013 and 2015 to the Central Bank of Syria to support the Syrian currency<sup>3</sup> and facilitate the imports of Iranian goods other than oil.<sup>4</sup> In June 2020, the Iranian Foreign Minister stated that Syria still has a credit line in Iran but without mentioning the amount.<sup>5</sup> Based on these numbers, Iranian non-military support to Syria during the conflict can be estimated at around \$15.6 billion US dollars, which almost equals 8.5 times Syria’s budget in 2020.<sup>6</sup>

Russia has also been facilitating business activities and has invested in vital sectors in Syria. It has become the main source of wheat for the Syrian regime that used to have wheat self-sufficiency before the conflict. The annual quantities of Russian wheat to Syria have increased sharply from 650 thousand tons in 2015 to more than 1.5 million tons in 2018.<sup>7</sup> Also, many companies registered in Russia have played an important role in exporting oil to Syria and breaking the sanctions

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imposed on the Syrian oil sector.<sup>8</sup>

The support from Iran and Russia has not been without consequence as the country has lost its sovereignty over key issues, but the regime managed to prevent a complete economic collapse. The Caesar Act may limit Russian companies' involvement with the Syrian government, but the already sanctioned Iranian entities have nothing to lose.

In addition to external support, the Syrian regime has proven adept at changing internal power dynamics to benefit from the rents usually associated with economic sanctions. Networks of wealthy cronies and warlords are enjoying the rents and the black market activities that flourish as a result of sanctions. These profiteers have risen as powerful actors that can influence policymakers to achieve their interests at the expense of other actors, including state institutions, traditional businesspersons, and vulnerable sectors of the Syrian population. But the regime always makes it clear that these new actors should provide it with financial support when needed; otherwise it would use its coercive measures to replace them with more obedient and controllable profiteers.

To overcome sanctions, the new war profiteers have coordinated and created criminal and illegal networks that have their smuggling routes to secure goods and services either from neighbouring countries, mainly Lebanon, or from other areas inside Syria such as the north-eastern region to obtain oil and wheat. In addition, some profiteers have established shadow companies and accounts in different countries to facilitate trading activities with the Syrian government. Once again, the Caesar Act and other economic sanctions will increase the trading risk for these companies though the added risk is often compensated for by higher profit margins. Consequently, Syrian civilians end up having to endure price increases for imported and smuggled goods given that local production was largely damaged during the conflict. This set-up by the Syrian regime ultimately allows it to use sanctions to reallocate resources to the benefit of its cronies and at the expense of civilians.

The Syrian government also seeks to deflect pressure on its performance by blaming sanctions for all the economic failure and collapse in the country. This is typical rhetoric in authoritarian regimes that portray sanctions as an external



threat to the state itself, and thus, all Syrians should stand with their state against them. The regime's propaganda, media campaigns, even Assad himself, always present sanctions as a part of an overall conspiracy against the country for its crucial role in fighting imperialism and Israel. Thus, it claims its survival stands like a fortress against a western evil plan. While it is impossible to measure exactly the impact of such efforts, the regime has been able to divert to a certain extent the anger of many Syrians away from its own performance and towards the sanctions, claiming they are the major cause of their misery. This is clear in the last social media campaign managed by the "The Syrian Civil Society" Facebook page<sup>9</sup> to "lift sanctions on Syria" using the Covid-19 pandemic to attract more attention. Thousands of Syrians mainly from inside the country have changed their Facebook profile picture to include the sentence of "lift sanctions on Syria". Members of parliament, artists, and key religious figures who retain a strong influence over local communities, such as Father Elias Zahlawi, a well-respected priest in Damascus, expressed their support for the campaign and official state media was quick to relay that.<sup>10</sup>

These coping mechanisms have allowed the regime in Syria to reduce the impact of sanctions on itself while people and state infrastructure suffer. As a result, sanctions have indirectly – if unwillingly – contributed to weakening people's ability to cope with the war and even to stand up against the regime's oppression as people spend more of their energy and daily efforts to ensure daily subsistence, particularly after the dramatic deterioration of living conditions caused by the sharp devaluation of the Syrian pound in 2020.<sup>11</sup> Thus, it is crucial for countries imposing sanctions to restructure their sanctions on Syria to mitigate their impact on the population and make them more effective against the regime.

## Making sanctions more effective against the regime

After almost 10 years, the current sanctions have failed to achieve their announced objectives of halting the Syrian regime's repression and forcing it to settle the crisis in line with UN Security Council resolution 2254 that calls for a genuine political transition. This failure in meeting objectives should incentivize the



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international community to analyze and overcome the sanctions' ineffectiveness.

The first step is to do a thorough evaluation of the role of the current sanctions in affecting the regime approach to UN resolution 2254 which the EU and US claim to be a strategic framework for their policies in Syria. The evaluation should also include an examination of the impact of sanctions on the behaviour of international supporters of the Syrian regime, notably Russia, Iran and China.

A second step is for sanction-setting countries to update their comprehensive strategy to end the conflict in Syria and fit the use of sanctions within this broader strategy. Western countries should agree on a set of detailed objectives within the agreed framework of 2254 to resolve the conflict and tie sanctions to measurable and attainable goals. One example could be to tie certain sanction policies to specific improvements on human rights issues such as releasing detainees, setting up independent visits to detention facilities, and stopping arbitrary detentions by security agencies to give civil society initiatives an appropriate and safe working environment. Other goals could be more political including progress on key aspects of the constitution or focus on reforms and accountability efforts in the security sector. The regime will resist this but at least the benchmarks and the expectations will be clearer than they are today.

Another weakness in the current approach to sanctions is the lack of coordination between the different countries. The EU is using sanctions as the main tool of intervention in Syria whereas the US administration has also adopted different approaches besides the sanctions, including direct military intervention in the northeast of the country as well economic support for the areas under the authority of the Kurdish-controlled Syria Democratic Forces. Moreover, the EU insists on political transition in Syria as a condition to lift sanctions and provide financial support for the reconstruction process in the country while the USA uses sanctions, including the Caesar Act, to increase its political bargaining power and limit Iran and Russia's influence in Syria rather than fulfil vital Syrians needs and aspirations in building a democratic state. A minimum level of coordination between sanction-imposing countries to agree on one main objective, which should be according to UN resolution 2254 a genuine political transition, would limit the political capacity of the Syrian regime to invest in the different agendas of western countries and open several channels of negotiation with each one of



them.

The last challenge for sanction policies is the lack of global consensus on the importance of substantial political reform in Syria. Countries like Russia, Iran, and China have been fighting against such a change, and they counter the western sanctions by increasing their support and trade with the Syrian regime.

Consequently, these countries are enjoying a growing influence in Syria, which has given them more reasons to protect the current regime. The sanction imposing countries, after agreeing on their final objectives in Syria between themselves, should explore how to provide these foreign backers of the Syrian regime with incentives to accept a political reform in the country. Negative incentives could include sanctions such as the Caesar Act that increase the cost of their support to the regime whereas positive incentives could be by providing guarantees that a democratic state would also protect their economic interests and investments in Syria.

## Suggestions to mitigate the impact of sanctions on Syrians

The international community has a range of policy options beyond the simple dichotomy of maintaining current sanctions or lifting them completely.

In thinking of how to minimize the impact on ordinary Syrians, one possibility is to provide direct financial support for traditional businesspersons and SMEs (small & medium enterprises) in Syria by opening parallel financial channels with them as a substitution of the formal ones which are sanctioned and controlled by pro-regime entities and individuals. These channels can resemble the Swiss payment mechanism to Iran launched in January 2020 which allows for humanitarian goods to be traded with Iran without falling under US sanctions. Such mechanisms reduce the “chilling effect” on foreign companies and organizations that become able to trade with sanctioned countries without being afraid of breaching sanctions. At the same time, they provide the international community with a tool to fulfil people’s needs for basic goods and services without empowering cronies in sanctioned countries.



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For Syria, the mechanism may include, besides humanitarian aid, other goods and services needed for local markets such as raw materials and equipment for industrial sectors, including textile, pharmaceutical and agri-food industries. In practice, this needs an independent technical office with the power to decide and approve transactions that can be conducted with Syria without being affected by the sanctions. Such an office should be established through a UN resolution that determines its governance, location, and authority. Syrian traders, foreign companies and banks should send requests for transactions to this office which will study all of them and only approve those that are not serving the regime and its cronies. Thus, this office needs to have a strong and effective monitoring system that is well informed about cronies in Syria and their activities. It could work in coordination with UN agencies and international organizations and be managed by Syrian and foreign technical experts.

Another choice for the international community is to provide technical and financial support to civil society initiatives through direct, flexible, and monitored channels similar to the above-mentioned mechanisms to avoid the bureaucracy of the current UN channels and to give a better opportunity for local civil society initiatives in getting external funds. Currently, only licenced NGOs in regime-controlled areas, that are all pro-regime, have the right to receive funds from international organizations. The Syrian civil society is the only actor that could positively change the internal power dynamics in the country. It understands the actual causes of economic deterioration, and, therefore, it would be able to counter the regime's rhetoric on sanctions as the sole cause of economic failure in the country. It could also build practical economic alternatives to mitigate the economic hardship at the household level.

The above technical suggestions should only be used as temporary solutions to overcome the negative impact of sanctions on the Syrian population. The end goal remains eventually lifting all sanctions provided the country goes through genuine political reform that fulfils aspirations of many Syrians in building a just, fair and democratic society.



## Endnotes

1. The USA imposed previous sanctions on Russian entities but on a case-by-case basis. The first incident happened in May 2014 when the US administration sanctioned a Russian bank (Tempbank).
2. Shaar, Karam (2019): "The Syrian Oil Crisis: Causes, Possible Responses, and Implications", Middle East Institute, Policy Paper 2019-17
3. Bloomberg (2013): "Syria Counts on Billion Iran Fund to Support Pound", [article accessed 7 Sept 2020] <https://www.bloomberg.com/news/articles/2013-06-18/syria-counts-on-1-billion-iran-fund-to-support-pound>
4. Reuters (2015): "Syria Ratifies Fresh Billion Credit Line from Iran", [article accessed 7 Sept 2020] <https://www.reuters.com/article/us-mideast-crisis-syria-iran/syria-ratifies-fresh-1-billion-credit-line-from-iran-idUSKCN0PI1RD20150708>
5. Iran Press (2020): "Zarif says Iran will work to enhance economic cooperation with Syria", [article accessed 7 Sept 2020] <https://iranpress.com/content/23050>
6. The Syrian government approved the 2020 budget at 4000 billion Syrian Pounds, with the current exchange rate (around 2200 SYP for one US dollar) the budget equals about 1.8 billion US dollars
7. Hatahet, Sinan (2019): "Russia and Iran: Economic Influence in Syria", Research Paper, Chatham House.
8. Ibid.
9. It is a pro-regime FB page and it focuses on the activities conducted by the licensed civil society organizations in regime-controlled areas. It is worth noting that many of these activities genuinely support the needs of the Syrian households.
10. "Father Elias Zahlawi supports the Syrian civil society campaign "lift sanctions on Syria" (in Arabic) [Accessed 21 August 2020] <http://sana.sy/?p=1137100>
11. Mehchy, Zaki (2020): "On the edge of starvation: New alarming Consumer Price Index estimates for Syria", Conflict Research Programme Blog, The London School of Economics and Political Science



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## About the author



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