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A crisis in times of crisis: Combating COVID-19 under sanctions in Iran



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- Iran's government failed to react quickly to the outbreak, exacerbating the crisis. Trust in politicians is low, which may further impede communication between the administration and public on COVID-19.
- Since the withdrawal of the US from the nuclear deal, Iran is also facing intensified US sanctions that may hinder a timely medical response to the pandemic.
- Sanctions can directly complicate interventions to manage the COVID-19 outbreak by creating bureaucratic obstacles to the imports of medical products and by impeding business and financial transactions with Iran including humanitarian deals.
- Intensified US sanctions have also weakened the Iranian economy, increased the cost of living and restrained imports of raw materials needed for local production of medical equipment.
- As a responsible global actor, the EU should safeguard the flow of medical equipment for humanitarian purposes, strengthen the response of multilateral institutions to the crisis and maintain its dialogue with the US and Iran on sanctions.

OVERVIEW/ÜBERBLICK

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Keywords: COVID-19, Iran, Sanctions, Trade Policy

- Der Iran gehört weltweit zu den am stärksten von COVID-19 betroffenen Ländern und gilt als Epizentrum für den Ausbruch im Nahen Osten. Die wachsende Fallzahl, gepaart mit der bereits angeschlagenen Wirtschaft, setzen das iranische Gesundheitssystem zunehmend unter Druck.
- Die verzögerte Reaktion der Iranischen Regierung auf den Ausbruch der Pandemie hat die Situation zusätzlich verschärft. Das geringe Vertrauen des Volkes in die Politik könnte außerdem ein Hindernis für die in Zeiten der Krise wichtige Kommunikation zwischen Entscheidungsträgern und Bürgern darstellen.
- Die weitreichenden Sanktionen, denen der Iran seit dem Ausstieg der USA aus dem Nuklear-Abkommen ausgesetzt ist, erschweren eine zügige Reaktion des Gesundheitssystems auf COVID-19.
- Die Sanktionen beschneiden die Möglichkeit, Geschäfte und finanzielle Transaktionen mit dem Iran abzuschließen, wovon auch humanitäre Deals betroffen sind. Bürokratische

Hürden verzögern und/oder hemmen den Import von medizinischen Produkten, welche für die Bekämpfung der Pandemie wichtig sind.

- Bereits vor dem Ausbruch von COVID-19 haben die Sanktionen den Iran wirtschaftlich stark geschwächt: Die Lebenshaltungskosten sind drastisch gestiegen und der Import von Zwischenprodukten wurde erschwert, welche entscheidend für die heimische Produktion medizinischer Produkte sind.
- Die Europäische Union sollte in ihrer Rolle als verantwortungsvoller Global Player den Transfer von medizinischer Ausrüstung zu humanitären Zwecke in den Iran sicherstellen. Des Weiteren sollte sie die Kooperationsbemühungen im Zuge der Pandemie auf der Ebene multilateraler Institutionen stärken. Zudem sollte sie aktiv bei der Aufrechterhaltung des Dialogs zwischen den USA und dem Iran mitwirken.

Schlüsselwörter: COVID-19, Iran, Sanktionen, Handelspolitik

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A CRISIS IN TIMES OF CRISIS: COMBATING COVID-19 UNDER SANCTIONS IN IRAN

Sonali Chowdhry, Anna-Katharina Jacobs, and Katrin Kamin

1 INTRODUCTION

The first cases of COVID-19 in Iran were reported in Qom on 19th February 2020. Since then, the country has become one of the hardest hit outside of China—with 84,802 confirmed cases and 5,297 fatalities as of 22nd April 2020 (Johns Hopkins University, 2020). This contagion has spread amidst a period of political unrest and intensifying sanctions on the Iranian economy - factors that may further complicate attempts to control and manage the outbreak. As recently as 17th March 2020, the US announced new sanctions on Iran, blacklisting several entities involved in trading Iranian petrochemicals. Given the difficult circumstances posed by the public health crisis and the global implications of an unmitigated spread in Iran, states such as the UK, China and Russia have been pressing for sanctions to be eased.

Fearing an economic collapse from the pandemic and sanctions, the Iranian government eased its lockdown measures on 11th April 2020 and is now permitting “low-risk” businesses and government offices to operate. Restrictions on Tehran, the country’s densely populated capital, were also eased starting 18th April 2020. This could initiate a second wave of infections, testing the country’s already strained public healthcare system.

In light of the ongoing policy discussions, this policy brief examines the links between the current sanctions in place and Iran’s ability to tackle COVID-19. It is structured as follows: Section 2 provides a concise summary of the timing and scope of the multiple phases of sanctions imposed on Iran. The wide-ranging consequences of recent sanctions on the Iranian economy are described in Section 3. Section 4 examines the capacity of the Iranian healthcare system in light of the COVID-19 outbreak. In Section 5, we discuss the various mechanisms through which sanctions may hinder domestic efforts to manage the pandemic, thereby exacerbating the human and economic losses from COVID-19. Section 6 summarizes the findings of the preceding sections. Section 7 concludes with the EU’s policy response and suggests further actions.

2 TIMELINE AND SCOPE OF SANCTIONS AGAINST IRAN

Iran has been operating under sanctions imposed by the US since 1979. These sanctions became more severe in 2006, as 190 other countries joined the UN Security Council in

imposing international sanctions on Iran for failing to halt its Uranium enrichment program. In early 2016, certain nuclear-related UN sanctions were lifted when Iran signed the nuclear deal, or the “Joint Comprehensive Plan of Action” (JCPOA) in 2015. However, after the withdrawal of the US from JCPOA under President Trump in May 2018, the US has imposed extensive sanctions against Iran which came into effect in November 2018.

The first (1979–1982) and the second phase (1987–2006) of US sanctions against Iran concentrated on restricting or banning trade with Iran and on freezing financial assets. Over the third phase (2006–2015), sanctions intensified along several dimensions: First, the majority of countries worldwide introduced sanctions against Iran in 2006 following the resolution of the UN Security Council. Second, international sanctions became more targeted towards individual persons and financial assets. The latter specifically affected Iran's ability to conduct financial transactions with the world. Third, from 2007–2009 sanctions encompassed trade in arms and the provision of military assistance (since 2010).

The fourth phase (2018 until now) is characterized by extensive finance and trade sanctions imposed by the US on Iran. Furthermore, the US has threatened sanctions on third countries trading with Iran and in Iranian oil. The main purpose of US sanctions against Iran is thus to limit the country's primary source of income, namely exports of oil. In adopting this strategy, the US is attempting to influence Iran to halt its nuclear program and support of militant groups in the region.

In comparison to this ‘maximum pressure’ strategy adopted by the US, the EU's sanctions policy towards Iran aims to combine restrictive measures with engagement. Despite the US withdrawal, the three EU members (Germany, France, and the UK) who were involved in the JCPOA have stated their commitment to the deal in order to avoid further escalation of hostilities. However, in January 2020, they initiated a dispute resolution mechanism over Iran's failure to comply with the deal. It remains to be seen whether this strategy further undermines the nuclear pact or leads to productive diplomatic dialogue.

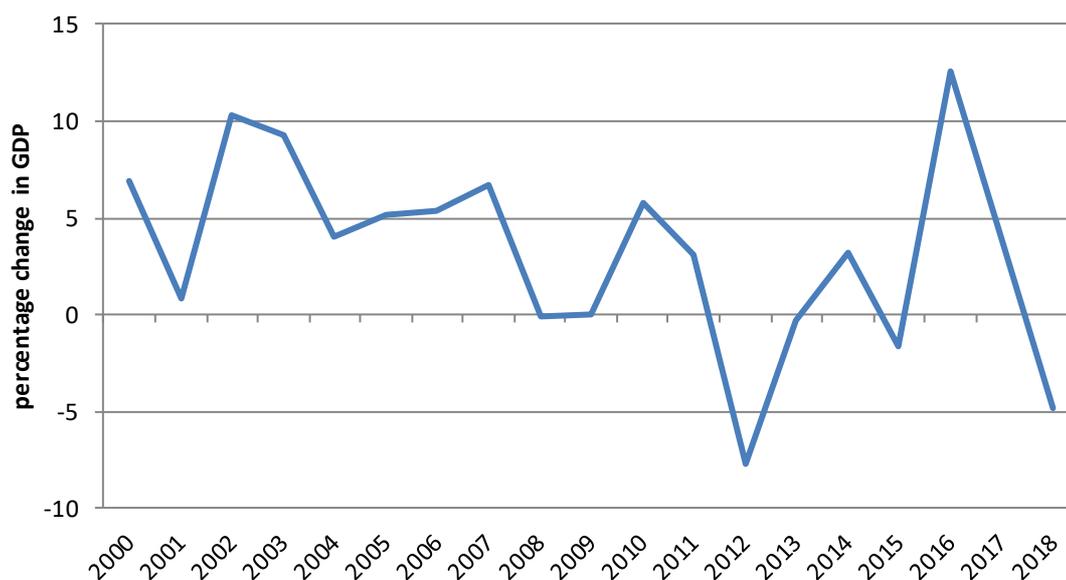
Due to the extensive nature of the sanctions imposed by the US and the ample negative reaction of Iran's Economy to those sanctions, this policy brief will focus on the US sanctions regime.

3 THE EFFECT OF SANCTIONS ON IRAN'S ECONOMY

GDP Growth

Iran's economy was hit hard by the fourth round of sanctions imposed by the US. This is reflected in the ongoing downturn of Iran's key economic indicators. In 2018, when US sanctions were reintroduced, Iran's GDP growth sharply declined to –4.8% (IMF, 2019). The World Economic Outlook has estimated an even sharper reduction of 9.4% in Iran's GDP for 2019. In comparison, Iran's GDP grew by 12.5% when sanctions were eased following the signing of the nuclear deal in 2015. This demonstrates the crucial role played by international sanctions in determining Iran's economic outcomes.

Figure 1:
Iran's GDP Growth, 2000–2018



Source: IMF (2019); own compilation.

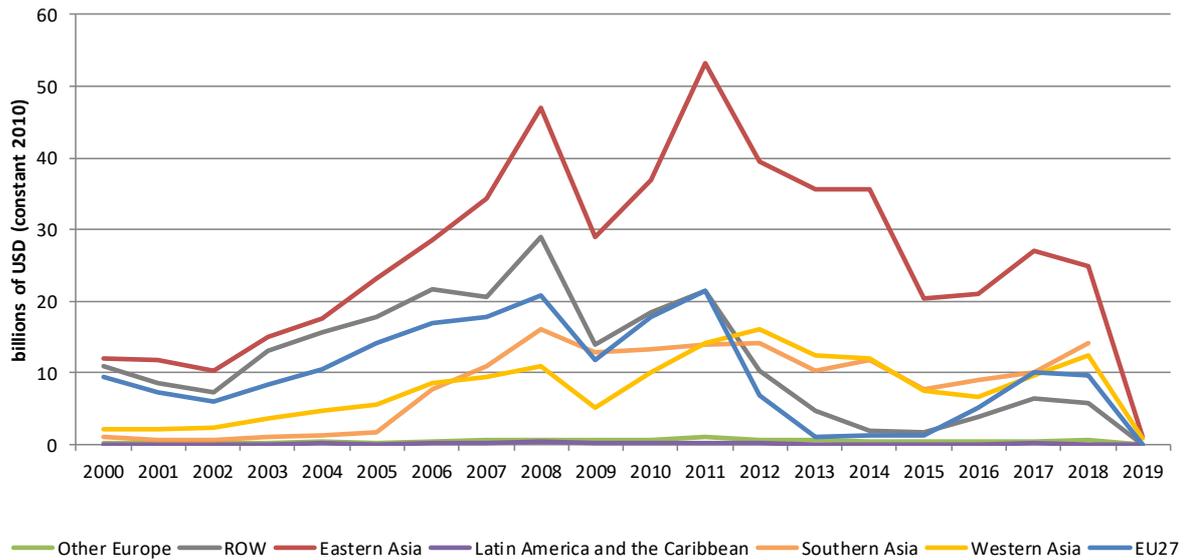
Currency and Inflation

The Iranian Rial (IRR) has also become significantly weaker against the USD in recent years. The government-subsidized official exchange rate was devalued by 27% from 2017 to 2018. On the open market, the Rial experienced a far steeper depreciation of nearly 127% over the same period. Sanctions now target more than just certain individuals or companies; therefore, they also affect every citizen in Iran by increasing the cost of living. This is indicated by the surge in inflation from 9.6% in 2017 to 30.5% in 2018, which depresses private consumption and in turn leads to a stagnation of the economy (Deutsche Welle, 2019a).

Trade

Sanctions have severely restricted Iran's ability to trade goods on world markets. This is reflected in the value of Iran's exports to (Figure 2) and imports from (Figure 3) major regions. We note that Iran's imports and exports decreased with the intensification of sanctions between 2006 and 2015, increased during the easing of sanctions in the context of the nuclear deal in 2015, and have sharply dropped with the reintroduction of sanctions by the US in 2018. These figures also reflect the rising importance of East Asia as a trading partner for Iran over time. Imports of Iran have also shifted markedly towards Eastern and Western Asia in recent years, replacing the EU27 as the dominant source of imports and highlighting the important role of regional trade for Iran.

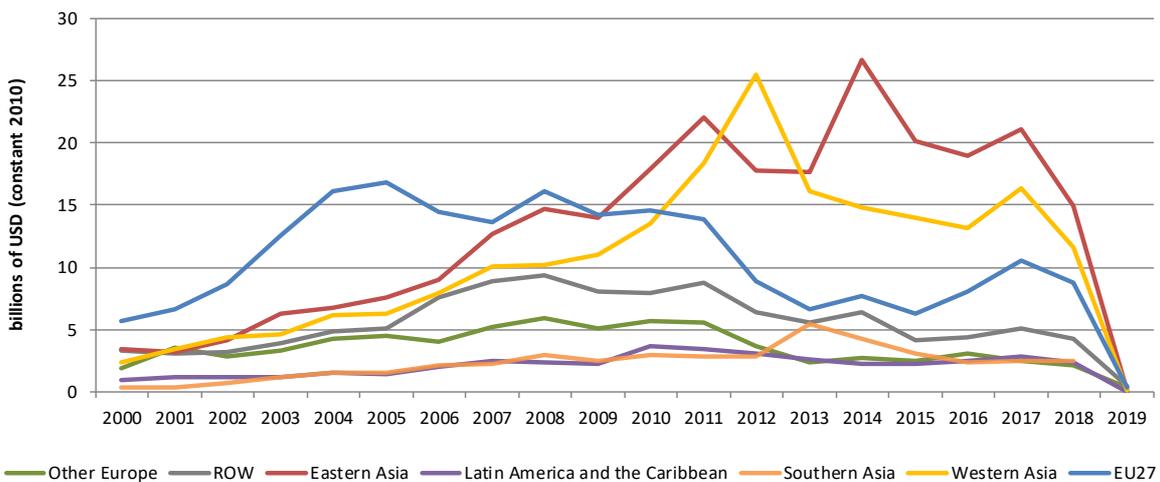
Figure 2:
Iran's total goods exports by region, 2000–2019 (bn USD)^a



^aExports represent reported imports by partner countries of Iran.

Source: UN Comtrade (2020); own compilation.

Figure 3:
Iran's total goods imports by region, 2000–2019 (bn USD)^a



^aImports represent reported exports to Iran by respective partner countries.

Source: UN Comtrade (2020); own compilation.

Energy Exports

A central feature of Iran's economy is its heavy dependence on revenues from the hydrocarbon sector. Iran ranks fourth globally in oil production, with oil exports accounting for more than half of total exports and more than two thirds of GDP growth in 2018 (OPEC, 2018; World Bank, 2019). Besides oil, Iran is also the third largest producer of natural gas. The

impact of US sanctions against Iran becomes abundantly clear once we examine Iran’s exports of fossil fuels (in value and quantity¹). Figure 4 below shows the positive, albeit short-lived, impact of the nuclear deal on Iran’s fossil fuel exports as well as their stagnation from the re-introduction of sanctions in 2018.

Iran’s exports of fossil fuels are also geographically concentrated. Figure 5 shows the five largest importers of fossil fuels from Iran. From 2009, China has consistently been the key importer. India is the second major importer: by value, purchases increased by 370% from 2017 to 2018.² This concentration of Iran’s exports of fossil fuels can in part be attributed to the sanctions in place, as they limit Iran’s trading opportunities.

Figure 4:
Iran’s total exports of fossil fuels, 2000–2018

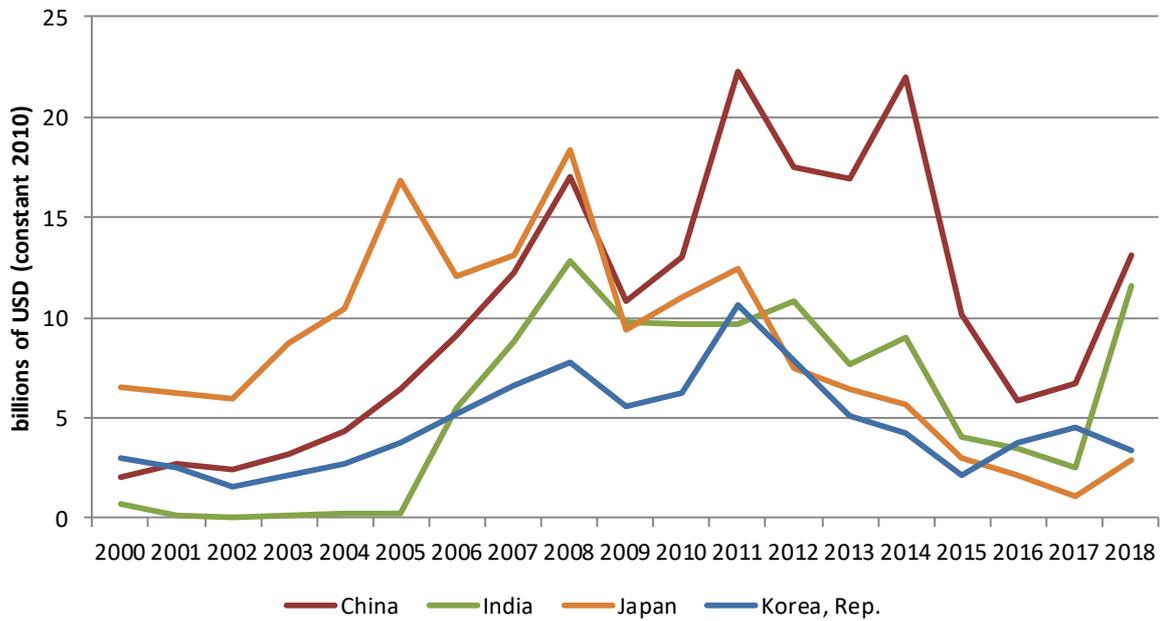


Source: UN Comtrade (2020); own compilation.

¹ Note that the quantity here is not measured in barrels but in kilograms, as the COMTRADE commodity group “fossil fuels” does not only contain fuel, but also coal, gas, and other fossil products.

² By weight, purchases from India increased by 259% from 2017 to 2018.

Figure 5:
Top export destinations for Iranian fossil fuels, 2000–2018 (bn USD)^a



^aIranian exports to major partners.

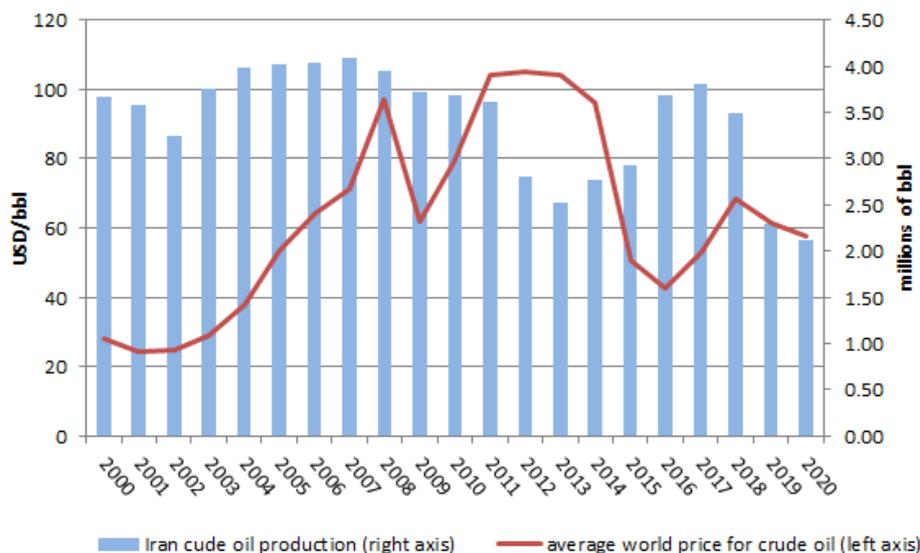
Source: UN Comtrade (2020); own compilation.

The reliance on fossil fuels makes Iran vulnerable to price fluctuations in energy markets. The IMF estimated a break-even oil price of 155.6 USD per barrel for Iran that would permit the country to maintain its’ fiscal balance in 2019. This estimate was more than double the actual average global price of oil in 2019 (61.4 USD per barrel). Therefore, in addition to the international economic blockade, low oil prices also place Iran under significant fiscal stress. For instance, the release of sanctions in 2015 triggered a surge in exports of crude oil from Iran; however, the development in world prices counteracted the positive effect on production and, hence, was too low to ensure a balanced income (see Figure 6).

While state-ownership of businesses in Iran is notable in both manufacturing and the financial sector, the state’s especially heavy involvement in the hydrocarbon sector³ adds to the country’s vulnerabilities (World Bank, 2018). With falling oil prices and oil exports, the government is confronted with income losses that would adversely impact its investment and potentially increase unemployment (Deutsche Welle, 2019b).

³ The National Iranian Oil Company (NIOC) is owned by the government of Iran and ranks as the world’s second largest oil company.

Figure 6:
Iran's oil production and global oil prices, 2000–2019



Source: IMF (2019); Federal Reserve Bank of St. Louis (2020); own compilation.

Finance

Apart from the reduction in financial resources, US sanctions have made it difficult to conduct business with Iran. Early sanctions limited Iran's access to the international transportation pool, leaving them reliant on regional transportation hubs. Secondary sanctions prevented Iran from accessing the international payment system. In other words, sanctions have significantly constrained Iran's ability to finance imports, since they have largely discouraged international banks and firms—including non-US agents—from conducting commercial or financial transactions with Iran.

In 2019, Germany, the UK and France have initiated the "Instrument in Support of Trade Exchanges" (INSTEX), which should serve as a European barter clearing entity for trade with Iran. However, the instrument has not been used for a single transaction until now (Deutsche Welle, 2019a; Tagesspiegel, 2020). Furthermore, in February 2020, the "Financial Action Task Force" (FATF) prolonged the blacklisting of Iran for not complying with international anti-terrorism funding agreements (FATF, 2020).

4 CONSTRAINTS POSED BY LIMITED HEALTHCARE CAPACITY

Infrastructure

The capacity of Iran to test for and treat COVID-19 patients is dependent on its existing public healthcare infrastructure. In 2014, Iran reported 15 hospital beds per 10,000 inhabitants. This can be considered as a proxy for its capacity to deliver general inpatient services and is significantly below the hospital bed density of other countries that have been hit hard by the

Coronavirus outbreak such as the US (29), China (42), Italy (34) and Spain (30).⁴ Looking further at the availability of professional medical care, Iran had 11.4 doctors per 10,000 inhabitants in 2015. This figure is below the world average of doctors per inhabitant (ratio of 15 to 10,000) and constitutes another constraint to Iran's COVID-19 response.

Finances

Inadequate provision of public healthcare in Iran is also reflected in the high percentage of out of pocket expenditures in total healthcare spending. In 2017, 41.8% of health expenditure was borne by the patients themselves. This financial burden constitutes an important barrier to healthcare access and could exacerbate the spread of the Coronavirus.

Demographics

Besides healthcare infrastructure, the number of cases requiring critical care and fatalities in Iran from Coronavirus will likely depend on its demographic structure. Data from China indicates that it is the elderly population which is most vulnerable, with higher case fatality rates. In Iran, this potentially at-risk elderly population (aged 65 or more years) stood at 4 million in 2015, approximately 5% of the total population (UN, 2017).

Widespread infections in Iran can also severely challenge the healthcare systems of its neighboring countries—Iraq, Turkmenistan, Afghanistan, Pakistan, Turkey, Armenia, and Azerbaijan. In recent weeks, these countries have imposed travel restrictions and are attempting to seal their porous borders with Iran.

Opiate Addiction

Another factor that has placed additional pressure on the Iranian healthcare system is the high number of opiate drug addicts. Drug addiction, and especially addiction to opiates, compromises the immune system and by that may lead to an increased susceptibility to infections. As the main trafficking route for opiates from Afghanistan, Iran had the highest prevalence of opiates usage in the world, affecting 3.3% of its population. With a population size of 81.8 Million in 2015, this corresponds to nearly 2.7 million opiate addicted people (age group 15–64).⁵ Furthermore, the number of admissions for treatment at the Clinic for the Iranian National Centre for Addiction Studies has increased by approximately 28% from 2017 to mid-2018 (UNODC, 2019). Hence, immuno-compromised drug addicts constitute another significant at-risk population in Iran whose vulnerabilities should be taken into account in designing an effective COVID-19 response.

Consequences

Given these factors and the rising case load of COVID-19, Iran will need to rapidly scale up its healthcare infrastructure as well as the training of medical personnel. Acknowledging the scale of the challenge, Iran has requested USD 5 billion from the IMF's Rapid Financial Instrument (RFI) funds that provide support to nations for urgent needs arising from

⁴ WHO (2020); reported figures correspond to the latest available year for the country.

⁵ For 2017, drawn from UNODC (2017).

emergencies such as natural disasters and conflicts. Furthermore, the Iranian government has shared a list of equipment needed that includes 10 million personal protective equipment kits, 100 million disposable gloves, more than 3 million diagnostic kits and 1000 ventilators.

5 ROLE OF SANCTIONS IN THE CONTEXT OF COVID-19

The issue of whether international economic sanctions indeed impede Iran's ability to fight the COVID-19 crisis can be discussed from various different perspectives. They center around questions that originate from international diplomatic and/or economic interactions, but also from domestic structures. More specifically, this issue entails discussions on the state of the domestic healthcare system, the speed and effectiveness of governments' responses to a public health crisis, the domestic and/or international supply of medical products associated with the COVID-19 pandemic, countries' access to these products as well as the general stability of the domestic economy. Depending on their scope and severity, sanctions can have both direct and indirect effects on these multiple channels.

Direct effects of sanctions

Most sanction regimes, including the US sanctions against Iran, exclude trade in humanitarian goods and services. Consequently, from a legal perspective, international sanctions should pose no direct obstacle to the provision of medical products to Iran. In the case of the US sanction regime against Iran, three facts are worth pointing out:

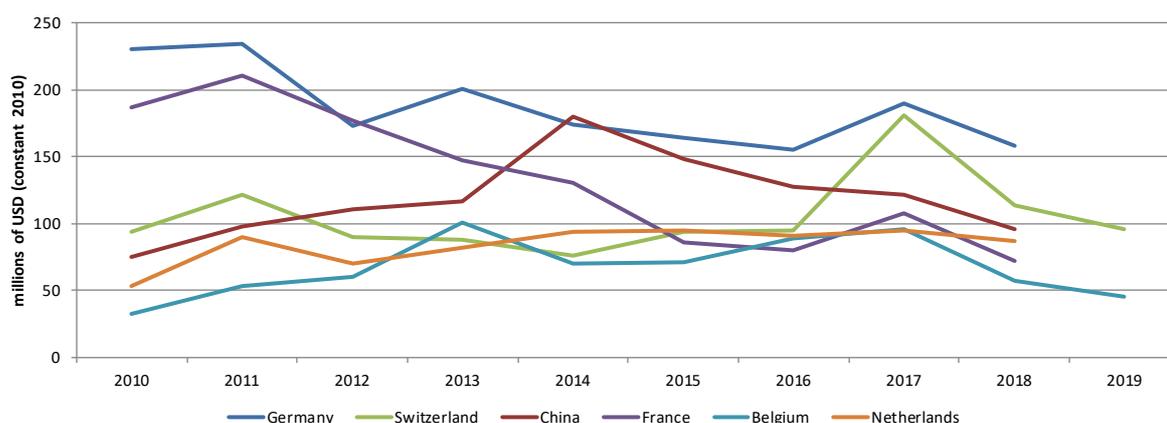
First, even though medical products are excluded from the official statute, exports of medical products are subject to specific authorization (United States Office of Foreign Asset Control, 2017). This amendment puts an additional bureaucratic burden on the parties involved and may lead to significant time delay in the delivery.

Second, due to the scope of the sanctions, several foreign banks and firms have effectively stopped doing business with Iran, including humanitarian deals. As a consequence, international trade in products originally exempt from the sanction statute has become increasingly difficult and entails higher costs. In January 2020, Switzerland agreed to act as a neutral intermediary, providing a safe payment channel to Iran to facilitate the movement of humanitarian goods (BBC News, 2020). Furthermore, the European payment channel INSTEX announced its first transaction in February 2020, declaring that medical products should be exported to Iran via this special-purpose vehicle (Tagesspiegel, 2020).

Third, a closer look at Iran's main trading partners in medical products reveals that it is mainly EU-27 countries rather than the US that dominate the supply. This can be seen in Figure 7 below which presents Iran's imports of products that are classified as necessary for fighting the COVID-19 pandemic (GTA, 2020; WCO, 2020). Together, the top 5 suppliers to Iran account for approximately 60% to 70% of total imports. The graph also demonstrates that Iran's overall imports of medical products have dropped with the re-imposition of sanctions by the US in 2018. Secondary sanctions prevent Iran from accessing the international payment system, significantly constraining Iran's ability to finance imports. That

includes importing goods originally exempt from the sanctions, i.e. medical products. These circumstances could make it difficult for Iran to quickly identify new suppliers and purchase key products that are most relevant for fighting COVID-19.

Figure 7:
Top 5 exporters to Iran of medical products associated with COVID-19, 2000–2019



Source: UN Comtrade (2020); own compilation.

Indirect effects of sanctions

Apart from the direct effects of sanctions in the form of limiting access to crucial medical instruments and products, sanctions may have indirect effects on a country's ability to address a public health emergency like COVID-19. We do observe that Iran's economy was hit hard by the fourth round of sanctions imposed by the international community and by the US, in particular. This is reflected in the downturn of Iran's key economic indicators, as was shown in Section 3. Since the outbreak of the pandemic, the currency has further depreciated over February to March 2020 by 12% and is being traded at approximately IRR 160,000/USD on the open market. Similarly the cost of living has increased as well due to inflationary pressures. This combination of a weak currency and high inflation can adversely impact the ability of Iran to address the COVID-19 crisis.

As a consequence of the breakdown of international cooperation in restricting oil production in early March as well as the drop in global demand resulting from the COVID-19 outbreak, the global price per barrel of crude oil has dropped from close to USD 50 in early February to almost USD 20 in March (New York Times, 2020b). These drastic oil price swings directly translate into Iran's oil revenue, an important share of the country's income. For 2020, the IMF's projection of the break-even oil price for Iran has increased to USD 194.6—nearly 9 times higher than the prevailing oil price (IMF, 2020).

Furthermore, US sanctions made Iran very dependent on regional transport networks. Border restrictions imposed by neighboring countries as a necessary response to the COVID-19 pandemic isolate Iran further, making it harder for the country to receive shipments of medical products (Foreign Policy, 2020).

We note that Iran also produces its own medical products that are sold domestically and on international markets. The last available tariff schedules from 2011 reveal that the country

protects its medical and pharmaceutical industry. Table 1 below lists tariffs on products associated with the COVID-19 pandemic. These range from 4 to 100 percent, the highest of which are found in the category of protective garments such as face masks and gloves. Similarly, the Food and Drug Administration of Iran (FDA) publishes the Iran Drug List (IDL) which indicates medical products that are approved for imports. However, listed products are only allowed to be imported if a locally produced equivalent does not exist or is not available. There is a lack of more recent data on protective measures, but if they are still in place, it is unclear whether the recent call for humanitarian aid in the form of medical supplies is compatible with Iran's trade policy.

Table 1:
Iran's tariff rates for COVID-19 related medical products and equipment, 2011^a

Product Group	HS Code	Tariff
I. COVID-19 Test kits/Instruments and apparatus used in Diagnostic Test	382200	10
	902780	16
II. Protective garments and the like	902000	4
	401511, 900490	35
	392620	45
	401519	57.5
	630790	65
	611610, 621010 - 621050, 621600	100
III. Thermometers	902511	14.5
	902519	18
IV. Disinfectants/Sterilization products	220890, 284700	4
	841920	9.5
	300490	14.5
	380894	19.7
	220710	50
V. Other medical devices	901920, 902212	4
	901890	9.6
	901819	18
VI. Medical Consumables	901831	15.8
	901839	17.6
	901832	21
	300590	23
	481890	30

^aProducts are selected as explained earlier, according to the list published by the WCO (2020).

Source: UNCTAD (2020); own compilation.

Iran's medical industry relies heavily on imports of raw materials, especially active pharmaceutical ingredients (APIs), and other crucial inputs that are not part of the exclusion amendment of the US sanction regime. For instance, paper materials are not exempt from the US embargo; however, they are needed to produce basic products such as face masks. Consequently, stocks of crucial inputs for domestic production as well as imports of final medical products were limited, leaving the country unprepared for a pandemic outbreak.

6 SUMMARIZING THOUGHTS

The current crisis in Iran is a result of international and domestic factors that mutually reinforce each other. The Iranian government's late reaction to the outbreak of the virus has led to a surge of infections that the country's comparably poor and strained public healthcare system is struggling to manage. The fourth round of US sanctions weakened the Iranian economy, leaving the country with limited resources and limited access to international capital and goods markets, including the market for medical products.

Iran's political institutions have also magnified the challenges posed by COVID-19. Despite the announcement of the outbreak on February 19th, 2020, the government did not take immediate measures such as preventing mass gatherings (New York Times, 2020a). This delay increased the risk of infections. First, the outbreak of COVID-19 was initially reported in Qom, an important pilgrimage site for Shia Muslims. As religious tourism to the city continued, COVID-19 could spread to the wider region (Foreign Policy, 2020). Second, voting for the first round of legislative elections in Iran was held on 21st February, two days after the first cases were already confirmed in Qom. It was not until one day after the election, that the government began to respond to the epidemic by cancelling concerts and events as well as closing selected universities and schools.

Closely related to this stands a comparably low degree of trust in the government's actions that may translate into public scepticism. According to the Varieties of Democracy (V-Dem) Project, the percentage share of the domestic adult population that supported the political regime lies in between 1% and 5% (2018) and is thus to be considered very low. Widespread protests following the shooting down of an Ukrainian passenger plane in January 2020 and the record low voter turnout (42.57%) in Iran's parliamentary elections in February 2020 can be construed as further indications of deteriorating relations between the public and their political representatives. This deepening mistrust in the administration could create difficulties in effectively enforcing social distancing and other COVID-19 mitigating policies.

Iran's domestic production of relevant medical products is unlikely to keep up with the needs created by the pandemic. Iran therefore finds itself in a similar position to other countries facing acute shortages of important medical equipment. Global supply is limited as a total of 54 governments have implemented some type of export restriction on pharmaceutical products and medical supplies associated with the COVID-19 (GTA, 2020). These include the European Union, Iran's main source for imports of medical products.

It is imperative to control the spread of disease in Iran, given the highly contagious nature of the virus and the serious risks it poses to neighboring countries, many of which have similarly weak economies and poor public healthcare infrastructure. This necessitates a coordinated global response involving multilateral institutions as well as the removal of harmful trade barriers by countries on critical medical products. Non-tariff barriers such as the approval requirements for the Iran Drug List could be eased by automatically registering medical products that have already met standards in advanced economies (González, 2020).

Since sanctions are primarily political instruments, it is beyond the scope of this policy brief to suggest whether and how they ought to be adapted to the COVID-19 situation. It should be

emphasized however, that the economic isolation of Iran will compound human losses from the epidemic—unless rapid and sufficient humanitarian aid is provided.

7 CURRENT AND POTENTIAL FUTURE POLICY RESPONSES BY THE EU

On 23 March 2020, the EU announced 20 million Euros in humanitarian aid to Iran for combating COVID-19. These efforts build upon earlier decisions taken by the EU to financially support Iran as it grappled with intensifying sanctions and an economic collapse. In 2018, the EU agreed to send 50 million Euro of aid to strengthen Iranian small and medium-sized enterprises (“SMEs”), provide technical support regarding environmental challenges and facilitate drug harm reduction, amongst other interventions (European Commission, 2018). With these renewed commitments, the EU expands its existing cooperation with Iran in various sectors including infrastructure, education and migration. These issues are part of the dialogue with Iran that is grounded in the JCPOA framework.

Another welcome policy move is the EU’s participation in the latest G20 statement released on 23rd March 2020 on combating COVID-19. The statement calls for countries to cooperate in strengthening global health systems, ensuring the cross-border flow of vital medical goods as well as mobilizing humanitarian funds. At the G20 virtual meeting of trade ministers, the EU has proposed further action such as a moratorium on new unilateral tariffs, maintaining open trade in agri-food products and the pursuit of WTO reform. In contrast, the EU has also imposed temporary export authorization measures on several goods that are crucial in managing and treating COVID-19. Although these new restrictions are stated to be temporary and transparent, they could pose serious concerns for Iran which relies on the EU for imports of medical products.

In its position as the main supplier for Iran, the EU should therefore safeguard the flow of these goods for humanitarian purposes. The establishment of INSTEX is a step in the right direction, as it ensures that exports to Iran of humanitarian goods are not disrupted by the sanctions it faces on the international payments system. However, involvement in the INSTEX is still limited to a select group of 10 EU member states. Therefore, in order to fully realize the gains from such a platform, more EU countries should be encouraged to participate.

As a significant global actor, the EU should simultaneously work towards strengthening the COVID-19 response of multilateral institutions such as the IMF, WHO, and the WTO. At the IMF, its support for Iran’s request of a USD 5 billion loan is critical. Given the possibility of a veto by the US, the EU should leverage its transatlantic relations to ease the US-Iran conflict in light of the pandemic and guide targeted actions towards controlling the spread of infections in the region. At the WTO, the EU should continue to push for reform and a suspension of tariffs on medical products and protective equipment.

Overall, the EU’s policy response to Iran’s COVID-19 crisis is likely to shape the future economic and diplomatic relations between the two parties. This is relevant for the EU’s other objectives—such as maintaining negotiations with Iran on sensitive issues such as its

nuclear enrichment program. Iran's commitment to the JCPOA is as yet uncertain, reflected by its interim termination of the agreement in response to the tightening of US sanctions. By combining pressure with dialogue and ample humanitarian assistance, the EU can better target the nuclear ambitions of the Iranian political establishment without amplifying negative effects for Iranian citizens.

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