

The Unintended Consequences of U.S. and European Unilateral Measures on Syria's Economy and Its Small and Medium Enterprises

Samir Aita
December 2020

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Circle of Arab Economists logo

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Executive Summary

This report analyzes the effects of U.S. and European unilateral measures (sanctions) imposed upon the Syrian economy since 2011 — more specifically, the impact on its agricultural, small and medium private enterprises (SMEs), and private banking sectors. The report does not address the unilateral measures imposed on individuals, but those related to state institutions and networks of the Syrian private economic sectors. The report assumes that the impact of unilateral measures on the Syrian economy and livelihood was unintended.

Through the analyses of each sector's evolution since the early 2000s, the report attempts to distinguish between the various influencing factors in order to demonstrate where the principle of “no harm to the population” was breached.

The Direct Economic Impact of the 2011 Unilateral Measures

The 2011 unilateral measures led to a sharp decline of all Syrian private sector exports, including non-oil exports. Imports also declined, but not as rapidly. While the declining oil production (including other fuels) prior to 2011 was not disclosed, Syria became a net importer of oil and its derivatives in 2012, with a deficit amounting to US\$4.4 billion, which was gradually declining due to import barriers and lower consumption. However, the import of oil and its derivatives remained around 40% of the total, leading to Syria's increasing dependency on Iran. The lack of fuel had a significant negative impact on electricity production, transportation, heating, and pumping for agricultural irrigation.

Despite the 2003 U.S. unilateral measures, U.S. exports to Syria, mostly corn and soybeans, increased significantly to reach US\$500 million by 2010. But after 2011, these U.S. exports declined to less than US\$20 million. Even exports of seeds and pharmaceuticals, officially allowed, declined to near insignificant amounts. Worth noting within the same context is the fact that U.S. policies prior to 2011 prevented Syria from procuring airplanes and power plants.

The unilateral measures transferred a large part of Syrian imports to the informal sector, as most foreign banks and companies adopted a de-risking overcompliance practice, spontaneously or following covert pressures. The share of “non-identified country of origin” in relation to Syrian imports increased from 1% in 2010 to 40% in 2018.

In addition to oil, the unilateral measures resulted in making Syria largely dependent on imports from Turkey, which represented one-quarter of the total Syrian imports during the conflict. More importantly, these imports were made through border crossings controlled by armed opposition groups (AOG), including jihadist and terrorist organizations according to UN Security Council resolutions, on one side and pro-government of Syria (GoS) militias on the other. They represented a major source of revenue for both sides, fueling the prolongation of the conflict.

The Indirect Impact of 2011 Unilateral Measures

The 2011 unilateral measures led to the transformation of large parts of the economy into informal sectors, increasing the economy's “transaction costs,” which were borne by the population, profiting the repressive forces and armed groups on all sides. Consequently, these measures played a significant role in indirectly generating significant financial resources for the combatants on all sides through informal economies. This is especially true as a large part of the population and the Syrian pound (SYP) exchange rate became strongly dependent on the flow of foreign aid and the financing of combatants.

Despite a certain level of recovery between 2017 and 2019 — during the last stages of the conflict before the imposition of the Caesar Act — the unilateral measures led the Syrian economy to also become strongly dependent on the Lebanese economy. Thus, the financial crisis that emerged in Lebanon in October 2019 harshly impacted the Syrian economy. The addition of the Caesar Act in this context led to deepening the crises in Syria and Lebanon. The Lebanese crisis is expected to be long, generating the risk of major deprivation (famine) and chaos in Syria.

The complexities of the compliance procedures with the unilateral measures are another reason for the significant “transaction costs” eventually borne by the population. Moreover, de-risking and overcompliance imposed by foreign banks and companies led to major difficulties in provisioning of nondesignated products. No effective system was put in place to deal with the consequences of de-risking and overcompliance practices for humanitarian goods, even in relation to UN agencies and INGOs.

[The Impact on Agriculture and Food Security](#)

The scarcity and high cost of fuel for pumped agricultural irrigation resulted in a major reduction of irrigated planted land and crop production. This significantly affected food security in the country, as agriculture became highly dependent on volatile rainfall.

The drop of yields in irrigated wheat production as a consequence of unilateral measures, resulting from the high costs of fuel, fertilizers, and other products, brought Syrian production below its needs in terms of bread and food security as the strategic reserves were either looted or depleted. This made Syria dependent on wheat imports, partly met through Iranian or Russian credit lines.

The unilateral measures led to an almost complete halt of fertilizer imports into Syria. Combined with challenges facing the local production of fertilizers, this led to abandoning the use of fertilizers in agricultural production, especially for wheat production, resulting in the decline of yields to almost half for irrigated land.

There was also a significant decrease in lamb meat production and consumption, and consequently a fall in revenues for Syria’s sheep owners. This in turn led to the loss of an important source of Syrian exports. The value chain of cotton was also dramatically disrupted with the rise of irrigation costs. A major input to the local private industry and source of exports declined drastically.

Vegetables and fruits were also reduced in value and were no longer being exported in the same capacity and regularity. As local consumption decreased and prices increased, farmers became more dependent on informal export networks.

The unilateral measures and their selective application to different zones of control in Syria changed the distribution and production of cumin in the country, making cumin part of the economic war as a political bargaining chip between the players. This was also the case for wheat, but on a larger scale.

[The Impact of the Unilateral Measures on MSMEs](#)

The unilateral measures, more than the conflict itself, constitute a major cause for the creation of illegal trade activities, as well as activities related to the illegal refining and smuggling of oil. These unilateral measures are also responsible for the loss of jobs, the decline in the development of micro-enterprises, and an increase in smuggling.

The conflict and the unilateral measures combined led to a major slowdown in the establishment of new industrial micro, small, and medium enterprises (MSMEs) in Syria. New

projects focused mostly on food production following the difficulties experienced in the food chain.

MSMEs, like most of the population, were hindered by the lack of electricity in the country. This limitation came as a result of damage caused by the conflict, and also because of the impact of unilateral measures on oil, gas, and electricity trade with neighboring countries, as well as because of restrictions on importing capital and spare parts for power plants.

The production of tap water also suffered from shortages of fuel for pumping, as well as from shortages of pumps, spare parts, and equipment to repair damaged plants at the source and along the distribution networks. This could also be accounted for as an “unintended” consequence of the unilateral measures.

Syria lost its pharmaceutical production security for basic generic medicine and its related sector for exports. Moreover, imported medicines were no longer available.

[The Impact on Private Banks and Exchange Rate](#)

The unilateral measures led to a reduced role for the public Commercial Bank of Syria, to a decline in the growth of private banks, and to the prevalence of the Arab Gulf’s traditional and Islamic banks in the Syrian banking market. These Gulf banks were mostly able to maintain some relations with corresponding banks for foreign trade operations and to deal with public foreign procurement as well as INGOs.

Most of the foreign financial transactions were moved out of the Syrian banking system toward the informal *hawala* system and similar informal money transfer means. This applied to the UN and INGOs operations as well.

Thus, the unilateral measures left the Syrian economy dependent on informal financial transactions, through mainly neighboring countries (particularly Lebanon and Turkey), with little means available for the Central Bank of Syria to intervene on the exchange rate.

This was the main driver of the severe impact of the Lebanese financial crisis on the Syrian economy. The assets of the Syrian middle class and businesses, including most SMEs, had been blocked (and probably lost) due to the Lebanese financial crisis. The Syrian SMEs can no longer use these assets to even import nondesignated products. The threat of the Caesar Act on both Syria and Lebanon added to the effects of the Lebanese crisis, leading to the depreciation of the Syrian pound to unprecedented levels and to hyperinflation, blocking the functioning of the Syrian economy, with dramatic consequences.

The unilateral measures, as well as the financing of the conflict, also gradually led to the dollarization of the Syrian economy. The result was inflation and depreciation of the currency compared to the U.S. dollar. This inflation led to the deprivation of a large segment of the population. Yet, with the current Lebanese crisis and the pressures of the Caesar Act, hyperinflation could have more dramatic consequences on the population.

[The Role of Neighboring Countries](#)

The unilateral measures led Syria to be extremely dependent on neighboring countries: Turkey, Lebanon, Iraq and Jordan; and, in turn, to be influenced by these countries’ own economic difficulties. This is particularly true in the case of the Lebanese crisis, which emerged in October 2019 and has proved to have dramatic consequences on the Syrian economy and livelihood of its population.

The Unilateral Measures and the COVID-19 Crisis

The World Health Organization (WHO) warned that, in the context of the Lebanese financial crisis, the collapse of the currency, growing inflation, and the unilateral measures, Syria was left very vulnerable to the uncontrollable spread of COVID-19 infections. The lack of basic means to address the pandemic (testing, protection, hospital equipment, medicine, etc.) is extremely problematic. However, the economic impact and the risk of famine surpass the health risks.

The Expected Impact of the Caesar Act

Technically, the Caesar Act does not add substantial tools to the already existing U.S. unilateral measures. However, its “secondary” dimension puts pressure not only on neighboring Arab and Asian countries in their remaining trade with Syria, but also on the EU, in case it intends to slow down its own unilateral measures.

The Caesar Act has detrimental effects because of its timing; it disrupts any chance of real recovery for the Syrian economy and adds a major psychological dimension on the already severe consequences of the Lebanese financial crisis and COVID-19 emergency in Syria.

Conclusions and Policy Recommendations

It would have made more sense to limit the unilateral measures to individuals with proven responsibilities for human rights violations and those who have committed crimes against humanity. Moreover, it would have been advisable to accompany these measures with mechanisms that could tackle the direct and indirect consequences of broadly applied de-risking practices. Such mechanisms should not be similar to the “food for oil” program adopted by the UN in the case of Iraq in the 1990s, not only because Syria has little oil to export, but mainly because these mechanisms negatively impact the population as a whole.

The mechanism urged must be under UN control and must prioritize increasing agricultural production and food security, the activities of the MSMEs, and allow for the banking sector’s strong involvement in the financial sector, instead of the current *hawala* and other informal systems.

The urgent implementation of such processes is vital today considering the expected extended duration of the Lebanese financial crisis and the dire consequences of COVID-19.

I. Introduction

This report is published during a period that coincides with the implementation of the “Caesar Act,” which came into effect on June 17, 2020, and which imposes the most coercive unilateral measures imposed by the U.S. on Syria and all foreign actors dealing with the country. The report analyzes the impact of U.S. and European unilateral measures enacted mostly since 2011 on the Syrian economy and finances, and more specifically on its agricultural, private SMEs, and private banking sectors.

The report attempts to distinguish between the direct effects of these measures and those due to other factors; in particular, the long conflict in Syria, as well as the policies that were put in place by the government of Syria (GoS). That said, the unilateral measures should not be considered in isolation, but also in their indirect effects on local and foreign mechanisms, such as “de-risking” and “overcompliance,” and/or the modification of value chains.

The report does not address the unilateral measures imposed on individuals, but those related to state institutions and the networks and dynamics of the Syrian private economic sectors. It assumes that the impact of the unilateral measures on the Syrian economy and livelihood of the population was unintended or undeclared, as the public statements and texts around these measures were to defend human rights, to change the leadership behavior, and to stop its repression of the social uprising, and to punish those committing crimes against humanity, as the proper naming of the “Caesar Act” suggests.

Those committing such breaches of human rights and crimes against humanity live in the same country and control the mechanisms of its economy and the destiny of its population. Through analyzing the evolution of each sector since the early 2000s, this report attempts to distinguish between the different factors influencing Syria’s demise, in order to demonstrate where the principle of “no harm to the population” was clearly breached by the unilateral measures.

II. Background

A. The Unilateral Measures on Syria

The U.S. has been imposing various types of unilateral measures on Syria since the 1970s. These unilateral measures already escalated in 2003, following the invasion of Iraq, through the “SALSA Act”¹ and were exacerbated further after the eruption in 2011 of the Syrian uprising and civil war. They reached a pinnacle with the “Caesar Syria Civilian Protection Act”² voted and signed in late 2019.

These unilateral measures were initially “primary,”³ targeting direct U.S.-Syria transactions or other transactions with U.S.-made components or in U.S. dollars. The Caesar Act imposes “secondary”⁴ measures targeting any transaction between Syria and a foreign, third-party country, institution, company, or individual. Thus, such secondary U.S. sanctions overrule any other unilateral measures imposed by the EU or other countries and impede any chance of alleviation.

1. The Syria Accountability and Lebanese Sovereignty Restoration Act of 2003; see <https://www.congress.gov/bill/108th-congress/house-bill/1828>.

2. The U.S. unilateral measures make up the Caesar Act itself—H.R. 31—Caesar Syria Civilian Protection Act of 2019 (See <https://www.congress.gov/bill/116th-congress/house-bill/31/text>) as well as Executive Orders 13894, 13582, and 13573.

3. For the definitions of “primary” and “secondary” sanctions, see The Carter Center (2020), “U.S. and European Sanctions on Syria.”

4. See for example <https://bit.ly/2NYDerE>.

According to international law, these coercive measures are designated as “unilateral measures,” and not “sanctions,” as they are enacted outside of the UN legality, its Security Council resolutions, or other international organizations’ measures. The UN does not impose sanctions on Syria, except for what concerns ISIS and other groups classified as “terrorist organizations.” “Unilateral measures” were condemned by the UN General Assembly in 2013,⁵ and again in 2018,⁶ and by the UN Human Rights Council.⁷

An earlier report published by The Carter Center describes the content of these different unilateral measures and analyzes various future scenarios they could follow. Based on past examples, this report concludes⁸ that any sanction lifting is likely to take many years and will depend on concessions obtained in exchange for multiple policy considerations. Even before the Caesar Act, it was assessed that “the U.S. and EU sanctions on Syria are some of the most complicated and far-reaching sanctions regimes ever imposed.”⁹

B. The Literature on Unilateral Measures

Ample literature is available on unilateral measures. It follows the tendency of major powers’ utilizing such tools for the intent of coercion, instead of military might, and is made possible as a result of the globalization of economies. It is based on the idea that the nature of these measures is to exert pressure on the economy to change the politics.

However, rare is the literature that goes beyond the announced economic aspects of these measures to address their impact on the local political economy, and consequently on the country’s economy as a whole.

In a 2010 article, BBC diplomatic correspondent Jonathan Marcus quoted the prominent American diplomat Nicholas Berns, who affirmed, “There are very few examples looking back over the last 25 to 30 years where sanctions have actually succeeded.” Marcus further quotes the former UK permanent representative to the UN (1998-2003), Ambassador Jeremy Greenstock, indicating that sanctions are popular not because they are known to be effective, but because “there is nothing else [to do] between words and military action if you want to bring pressure upon a government.”¹⁰

However, taking into account that “the socio-political forces struggling for power and control over resources within these states are the ‘raw material’ upon and through which sanctions act,”¹¹ it was clearly demonstrated that “sanctions could not generate powerful political oppositions where none previously existed; nor, despite sometimes inflicting massive economic

5. Resolution 68/200 of December 2013, on “Unilateral economic measures as a means of political and economic coercion against developing countries” that urged “the international community to adopt urgent and effective measures to eliminate the use of unilateral coercive economic measures against developing countries that are not authorized by relevant organs of the United Nations or are inconsistent with the principles of international law as set forth in the Charter of the United Nations and that contravene the basic principles of the multilateral trading system,” condemning and rejecting such measures; see <https://undocs.org/en/A/RES/68/200>.

6. Resolution 73/167 of December 2018 added strong objections “to the extraterritorial nature of those measures which, in addition, threaten the sovereignty of States, and in this context calls upon all Member States neither to recognize those measures nor to apply them, as well as to take administrative or legislative measures, as appropriate, to counteract the extraterritorial applications or effects of unilateral coercive measures”; see <https://undocs.org/en/A/RES/73/167>.

7. Resolution 27/21 of September 2014 on “Human rights and unilateral coercive measures”; see <https://www.right-docs.org/doc/a-hrc-res-27-21/>.

8. The Carter Center, September 2020, pp. 20-21.

9. Walker, 2016.

10. Jonathan Marcus; Do economic sanctions work? <https://www.bbc.com/news/world-middle-east-10742109>.

11. Jones, 2015, p. 175.

damage, could they shatter ruling coalitions where they were not already in decay.” Instead, “sanctions were divisive for opposition in every case studied.”¹² In terms of past cases, “the impact of sanctions on ruling coalitions was heavily conditioned by the degree of autonomy experienced by significant social forces, particularly vis-à-vis the state.”¹³

“The state’s extensive economic role permitted widespread control over businesses of any significant size, while smaller business owners were too fragmented to offer resistance.” Comparing Iraq with South Africa, Iraq’s “middle classes were simply too weak and state dependent to move against these regimes, and largely remained within their ruling coalitions.... Rather than distancing these groups from state power, sanctions tended to draw business and government officials closer together unless pre-existing dynamics were already dividing them.” Thus, “trying to fragment a ruling coalition can generate unforeseen and counterproductive outcomes.” This is to conclude that “sanctions are more destructive than productive. Whilst they sometimes assisted in fragmenting ruling blocs, they were less effective in generating new societal bases of resistance.”¹⁴ And “the transformation of urban working and middle classes into an impoverished urban and rural underclass merely intensified state dependency and locked much of the population into a depoliticizing struggle for daily subsistence.”¹⁵

It is also important to note that oppressive rulers are more likely to counter sanctions by adopting more severe policies and measures that reinforce their ruling tools and strengthen their control. When such rulers are in survival mode, they operate with fewer options, and thus with less concern for the population’s needs. Hence, public policies tend to allow the development of informal (black) markets that grow “clientelism” for the rulers. Sanctions and public policies take the population hostage in a confrontation with foreign powers imposing sanctions.

Several scholars studied the rate of success that economic sanctions had achieved. Hufbauer et al. argued, “By far, regime change is the most frequent foreign policy objective of economic sanctions, accounting for 80 out of the 204 observations,”¹⁶ a success rate of no more than 40 cases, which is about 34%. This low rate of success was reinforced by Pape,¹⁷ who stated that only five cases stand up as successful ones, and thus “there is no sound basis for even qualified optimism about the effects of sanctions.”

In 2015, Neuenkirch and Neumeier noted that the U.S. and UN economic sanctions had a statistically significant impact on the target country's economy by reducing GDP growth by more than 2% a year. The study also concluded that the negative effects typically last for a period of 10 years, amounting to a combined decline in the target country's GDP per capita of 25.5%.¹⁸ Furthermore, Neuenkirch and Neumeier, and other scholars from the University of Hamburg, indicated a clear-cut negative implication of sanctions over the human rights situation in the targeted countries. In their study, the realized detrimental effects “resulting from economic sanctions ... harm the civilian population.... Both empirical and legal analyses tend to claim a causal effect of the imposition of economic sanctions on the worsening of human rights in targeted countries.”¹⁹ They also argue, “It appears more suitable that policymakers pursue other objectives. ... [T]he differential effects of sanctions on different dimensions of human rights have to be taken

12. *ibid.*, p. 180.

13. *ibid.*, p. 177.

14. *ibid.*, p. 178.

15. Jones, 2015, p. 179.

16. Hufbauer et al., 2008.

17. Pape, 1998.

18. Neuenkirch & Neumeier, 2015.

19. Gutmann et al., 2018.

into account. For example, our analysis shows that for U.S. sanctions pursuing nonhuman rights goals, emancipatory rights are improved while political rights suffer.” In other words, most of the literature suggests that not only do sanctions have a clear negative impact on the civilian population, but they also lead to results opposite to the ones that were hoped to be achieved when the sanctions were placed.

A recent analysis on Syria by The Syrian Center for Policy Research (SCPR) concluded: “Sanctions not only have negative consequences on the population but will also inhibit a healthy reconstruction process and entrench the power of warlords and elites,”²⁰ even after a political change.

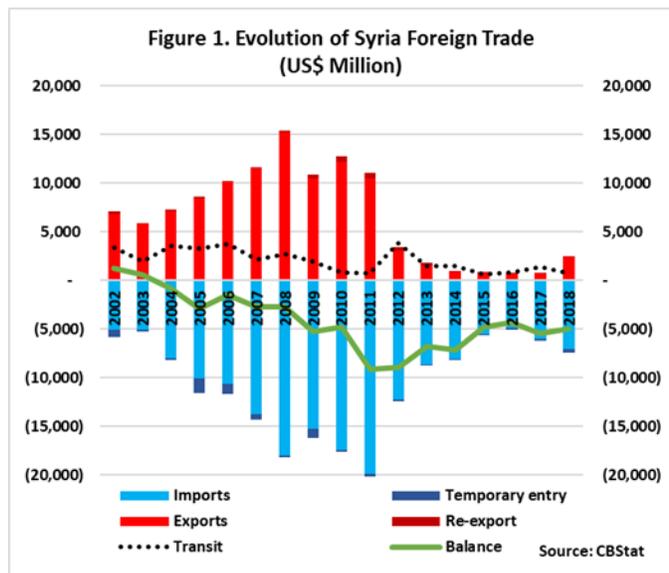
III. The Direct Economic Impact of U.S. Unilateral Measures

The unilateral measures nominally target foreign trade. This is where their direct impact is observable; within the mechanism for development and transformation of the country.

A. Syria Foreign Trade

In the early 2000s, Syria’s foreign trade used to accrue a surplus, thanks to oil constituting the majority of exports. This changed drastically at the end of the decade as imports increased significantly with the opening of the country and its deeper integration in the globalized economy through reforms²¹ despite already existing unilateral measures and a tumultuous regional geopolitical context.²²

Syrian imports rose from US\$5.1 billion in 2002 to US\$19.9 billion in 2011. Exports rose from US\$6.9 billion to only US\$10.5 billion in 2011 (with a maximum reached in 2008 of US\$15.2 billion) (Figure 1).²³



20. SCPR 2020.

21. Starting in 2003, Syria moved from “state capitalism” to a declared “social market economy” marked by the negotiations of free trade agreements, the opening of private banks, and a diminished role of the state in economy and services. See https://www.academia.edu/38977985/SYRIA_WHAT_REFORMS_WHILE_A_STORM_IS_BUILDING.

22 The 2000s were marked by the U.S. invasion of Iraq, new unilateral measures in 2003, the assassination of Lebanese Prime Minister Rafiq Hariri, and the resulting withdrawal of Syrian troops from Lebanon.

23. The data of this report are extracted from the Statistical Abstracts of the Central Bureau of Statistics (CBStat), unless indicated otherwise. The analysis is produced by the Cercle des Economistes Arabes.

Oil constituted 71% of exports in 2002 and only 46% in 2010, as a result of the drop in oil production from around 400,000 barrels per day to about 125,000. But the share of oil derivatives in imports increased from 3% in 2002 to 19.7% in 2010, as the capacities of local refineries were limited. The oil sector trade balance dropped from a surplus of US\$4.7 billion in 2002 to only US\$2.1 billion in 2010 and US\$1.2 billion in 2011 (Figure 2).

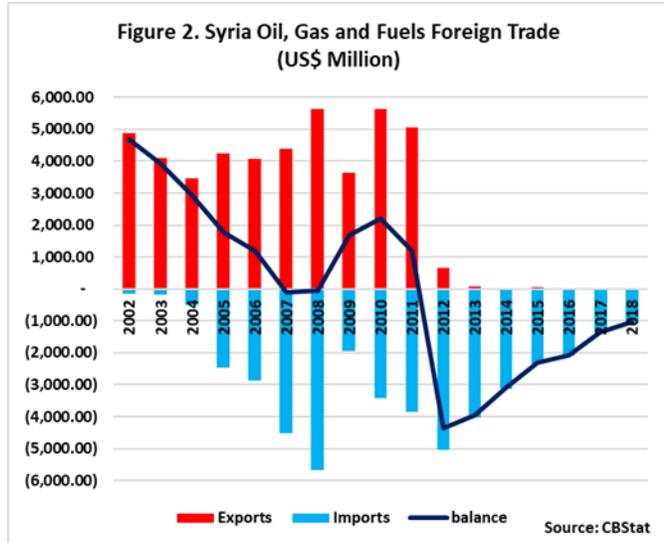
This deteriorating oil balance was completely ignored in the U.S. and EU discourse on unilateral measures. They aimed to target Syrian oil exports to reduce the financial resources of the GoS while the major economic issue in the country was the import of oil and oil derivatives.

Since the early 2000s, the deterioration of the oil, gas, and fuels trade balance was due to the rapid increase in the local consumption of fuel derivatives, as well as to the smuggling of such subsidized products mainly into Lebanon. That led to a deficit in 2007 and 2008, despite the major reduction of subsidies, and, thus, price differential with neighboring countries. A mild recovery was observed in 2009-2011, but prior to that, the impact of the unilateral measures of 2011 led to a systemic deficit.

The SALSA act of 2003 had a very limited effect on Syrian foreign trade. But the 2011 unilateral measures significantly impacted all Syrian exports, including oil. Total exports dropped drastically by 71% in 2012, while the share of oil in exports dropped to 22%. Imports also dropped by 39% in 2012, with a significant increase to 41% in the share of oil derivatives in imports. The impact increased later as Aleppo factories were severely affected by the war and as armed opposition groups (AOG), then the Islamic State in Iraq and Syria (ISIS), and then the Syrian Democratic Forces (SDF) and U.S. forces took control of the oil fields.²⁴ The oil trade balance transformed to a systemic deficit, which reached US\$4.4 billion in 2012.²⁵

This was exacerbated during the following years, as the Syrian uprising transformed into a war with the GoS losing control of the oil fields. In 2016, oil imports continued to constitute 43% of total imports, while they dropped to half their value in 2011, to only US\$2.0 billion.

In 2017, Syrian imports started to pick up after several years of decline, a tendency that continued in 2018. Syrian exports also increased in 2018, showing a partial recovery of the economy, with an insignificant share of oil exports. However, Syrian imports of oil and oil derivatives continued to decrease, reaching a low of only US\$1 billion in 2018, 15% of total imports, insufficient to satisfy local demand, even if the demand was reduced. This was directly due to U.S. unilateral measures, and not formally those of the EU, as the U.S. clearly warned about



²⁴ Late 2012 witnessed the loss of control on oil fields by the GoS. European and American unilateral measures exempted oil exports if done by the opposition; see Shaar, 2019.

²⁵ The financing of oil and public sector imports is unclear. The CBS is assumed to have moved its foreign assets to Russian banks following 2011 unilateral measures (see "Report Confirms Syria Transferred Foreign Assets to Russian Banks," the Syria Report, Sept. 13, 2016), but also to other countries not applying the unilateral measures. Also, a line of credit had been opened by Iran.

sanctioning any oil sales and transportation into Syria.²⁶ This is also surely linked to the depletion of the Syrian foreign currency reserves and to the complications of buying from the markets.

Iran²⁷ is assumed to have provided the oil and oil derivatives necessary to cope with the deficit during the conflict, with 1 million-3 million barrels a month, through deferred payment.²⁸ However, Iranian shipments seem to have stopped between November 2018 and May 2019. “Oil shortages in April 2019 crippled regime-controlled areas and brought donkeys back to the streets of Damascus as Iranian crude oil shipments dwindled. There is considerable speculation about what caused the slowdown in shipments, and three of the most frequently cited explanations are: 1) Iran stopped selling oil to the Bashar Assad regime on credit; 2) The U.S. reimposed sanctions on Iran’s oil exports in November 2018; and 3) Third countries started blocking oil deliveries of any origin to the Syrian regime. The third explanation is by far the most convincing, and there is strong evidence of an ongoing blockade on delivering oil, from anywhere, to the Assad regime. America is applying pressure on third countries to block oil from reaching Assad, with backing from Saudi Arabia, the UAE, and Israel.”²⁹ “Domestic oil prices will continue to rise given the excess demand, and life will become harder for those living in regime-controlled areas as the economy shrinks at a faster pace and higher prices push more people into poverty.”³⁰ The deliveries of crude oil and products resumed in June 2019, but in much smaller quantities,³¹ and partly through Lebanon.

With the unilateral measures in place and Syrian oil production in decline prior to the conflict, the Syrian economy became strongly dependent on oil imports, which are necessary for electricity production, transportation, heating, and pumping water for agriculture, as well as military operations. Even if oil imports were not initially directly targeted by the U.S. and EU unilateral measures, the issue of financing these imports in hard currency and finding a country to supply became much more complicated. The result was a greater dependency of the GoS on Iran.

26. On the basis of Executive Order 13582 of 2011, see per example: OFAC statement on sanctions risks related to shipping petroleum to Syria <https://bit.ly/2YU4qOt>.

27. But also Algeria in the first years of the conflict, according to interviews.

28. Shaar, 2019, p. 1, based on CIA Factbook.

29. *ibid*, p. iv.

30. *Ibid*, p. v.

31. Not only from Iran; see <https://www.euronews.com/2019/05/10/iran-sent-oil-shipment-to-syria-easing-fuel-crisis-source>.

Box 1. Interview with the owner of a gas dtation in Idleb (June 9, 2020)

The company Watad, owned by Hay'at Tahrir Al-Sham (HTS), monopolizes the importation and distribution of oil derivatives, as well as domestic gas, in the region of Idleb. The products are imported from Turkey and are sold cheaper than in Turkey. Prices in Syrian pounds evolve with the U.S. dollar exchange rate. Most of the consumption is for transportation and partly for electricity production, but the latter has been diminishing for at least a year with the installation of solar panels. Solar panels and batteries for producing electricity had been provided by EU aid. These are now popular because of the high prices of fuel and are largely available in the market. Most homes and commercial outlets now have solar panels. Irrigation pumps are now powered by solar panels even though they are expensive (US\$20,000-US\$40,000 each).

HTS used to trade oil derivatives with ISIS, GoS and SDF; but this has declined since mid-2019 following an agreement between Russia and Turkey.

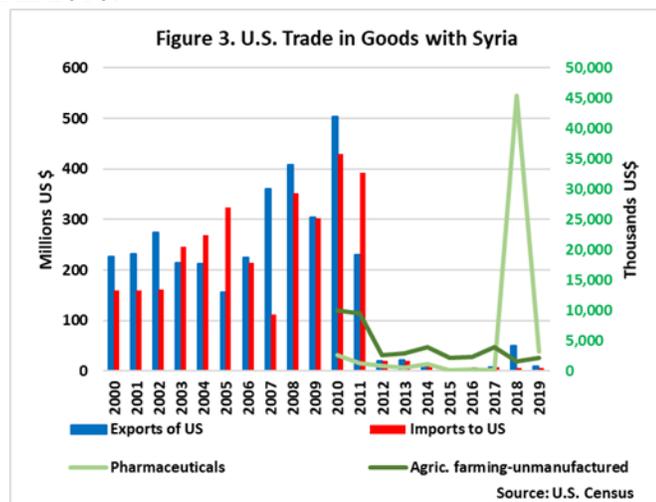
GoS buys oil from SDF through the Qaterji network, a monopoly. GoS has access to oil derivatives from Lebanon, not only through traders but also Hezbollah, which controls five informal border crossings. Prices are higher than that in Idleb due to intermediaries and taxes. GoS controls the gas fields in Palmyra.

There was no real impact of unilateral measures in Idleb, except on exchange rate and money transfers. The transfers are made through Turkey. But the costs recently became extremely high, and there is a recent tendency to adopt Turkish lira in pricing.

B. U.S. Trade with Syria

The U.S. unilateral measures impacted trade with Syria. Since mid-2011, Syria's imports from the U.S., primarily of corn and soybeans, have collapsed from several hundred million U.S. dollars yearly³² to insignificant amounts (Figure 3).³³ The 2011 unilateral measures had much more significant effects than previous measures enacted in 2003. U.S. exports to Syria had increased significantly and reached US\$500 million in 2010.

The small share of U.S. agricultural farming exports to Syria (mostly seeds) also collapsed from around US\$10 million annually in 2010 to around US\$2 million from 2015 onward. U.S. pharmaceutical product exports to Syria also dropped, except in 2018, when a record US\$45 million were registered.³⁴ The reality of the transaction processes led to the almost complete shutdown of agricultural and pharmaceutical U.S. exports to Syria, even though these



32. <https://www.census.gov/foreign-trade/statistics/product/enduse/exports/c5020.html>

33. Corn and soybeans

34. This value corresponds to the yearly Syrian pre-conflict total importation of foreign medicines (!); see Ghisn, 2020.

exports were necessary for the sustainability of Syrian agriculture and pharmaceutical production and needs.

U.S. imports from Syria increased in the 2000s, reaching a high of US\$429 million in 2010; 93% of that amount was for crude oil.³⁵ These imports collapsed following the 2011 measures, reduced to around US\$20 million in 2013 and US\$5 million in 2019, one-third of which were spices.

The preconflict U.S. unilateral measures dissuaded U.S. investments in Syria and prohibited the importation of most U.S. products and non-U.S. products with 10% or higher share of U.S. components.³⁶ Preconflict U.S. measures also prevented the national carrier, SyrianAir, from repairing its two Boeing 747 planes³⁷ (even though the U.S. Bureau of Industry and Security regulations made an exception for “parts and components intended to ensure the safety of civil aviation and the safe operation of commercial passenger aircraft”) or to procure new planes from the U.S. or Europe. (In 2009 the U.S. rejected Airbus’ request to sell new planes to Syria as it contained some 40% components of U.S. origin.)³⁸ Leasing planes under the Syrian flag was also made impossible.

SyrianAir today has three operating aircraft (one Airbus A320 and two Airbus 340s), which cannot be maintained or obtain spare parts. These planes are mainly used for internal flights. At the same time, the private Cham Wings has five planes that were easier to buy, lease, or maintain, as the company is legally registered in Ukraine. Cham Wings maintains regular flights³⁹ to Lebanon, Iraq, Sudan, Iran, Russia, Kuwait, UAE, Oman, and Armenia despite being listed by the U.S. in 2016.⁴⁰ Unlike SyrianAir, Cham Wings could theoretically fly to Europe. However, the EU refuses to fuel its flights.⁴¹

Similarly, in 2007, the U.S. company General Electric, the French Alstom, and the Japanese Mitsubishi all declined to bid for the construction of electricity plants in Syria, as their products have more than 10% U.S. components.⁴²

Thus, contrary to public statements, the U.S. unilateral measures have affected U.S. exports to Syria directly related to the population’s basic livelihood, mainly in the agriculture and health industries.

C. The Structure of Syrian Imports

The unilateral measures impacted the structure of Syria’s imports. Syrian regulations used to require that imports must be made directly from the country and company of origin. These regulations became less strict in reaction to the unilateral measures, especially because most U.S. and EU companies ended their business licenses in Syria, or their direct exports to Syria, in an attitude of “de-risking” and overcompliance practices. Consequently, the share of Syrian imports

³⁵ See <https://www.census.gov/foreign-trade/statistics/product/enduse/imports/c5020.html>.

³⁶ OFAC license was required and refused in most cases.

³⁷ These planes were already granted by Saudi Arabia, as well as the other 727. In 2010, these planes were sent to Saudi Arabia in a deal for repair, silently agreed by the U.S.. All these planes are grounded in Saudi Arabia since 2011. Interview with the former Syrian Minister of Transportation.

³⁸ See Boon& al, 2012, pp 466-467.

³⁹ <https://chamwings.com/our-destinations/>

⁴⁰ <https://www.treasury.gov/press-center/press-releases/Pages/il0690.aspx>

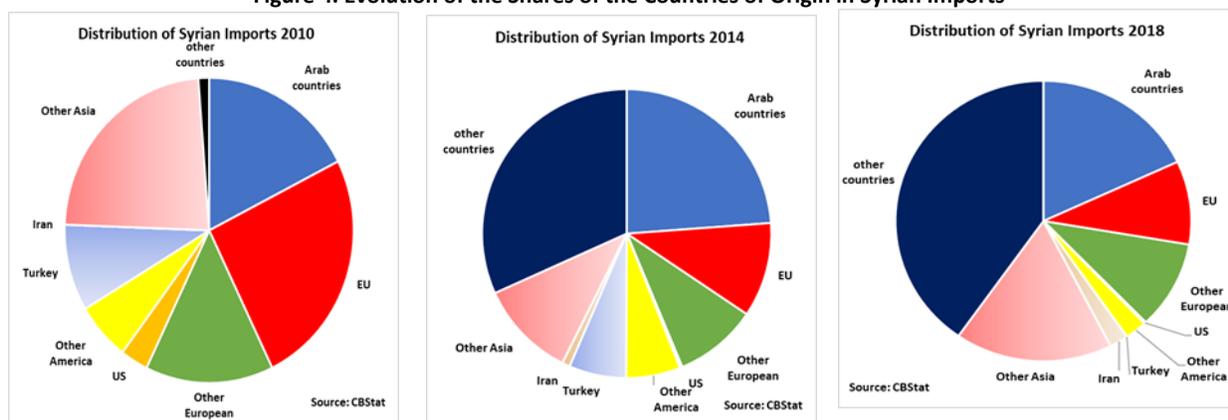
⁴¹ Interview of Cham Wings personnel.

⁴² See Boon& al, 2012, p 467 and <https://www.nytimes.com/2007/08/15/world/middleeast/15syria.html>.

with nonidentified origins⁴³ increased from 1% in 2010 to 32% in 2014 (Figure 4). This trend continued during the slight recovery of 2018, with the share of nonidentified origin imports increasing to 40%. Thus the unilateral measures transformed most Syrian imports to the informal sector.

The share of official imports from the EU was reduced from 25% in 2010 to 10% in 2018. The share of those from Arab countries remained at the same level. The imports from East and South Asia remained significant (17% in 2018); those from Russia around 7%; while those from Iran were reduced drastically. Imports from Turkey continued to be significant until the GoS banned such imports in 2018.

Figure 4. Evolution of the Shares of the Countries of Origin in Syrian Imports



D. Syria's Trade with Turkey

Contrary to the Syrian official statistical records, one of the main aspects of Syrian foreign trade during the conflict was an increased dependency on imports from Turkey.

In the early 2000s, Syrian foreign trade with Turkey was low, with exports mostly equivalent to imports. In 2004, the two countries signed a free trade agreement following the U.S. invasion of Iraq and the difficulties encountered by Syria to sign an association agreement with the EU. The agreement with Turkey was to be activated in full in 2007.

In 2005, however, Turkish exports to Syria increased by 40% and picked up in the following years until they reached US\$1.85 billion in 2010 (compared to only US\$267 million in 2002).⁴⁴ At the same time, Syria's total imports increased significantly with Turkey's share remaining limited to 9% of the total in 2010.

A sudden drop of Turkish exports to Syria occurred in 2012 as the armed conflict developed in the north of the country and as Turkey imposed sanctions on Syria. The GoS retaliated by ending the free trade agreement.⁴⁵ However, Turkish exports increased again and reached a high of US\$1.80 billion in 2014,⁴⁶ according to Turkish statistics; this was the same year ISIS seized a large part of the Syrian territory (Figure 5). These exports continued to be significant in the following years, despite the displacement of around half the Syrian population and the severe reduction in consumption by Syrian households.

43. Marked as originating from "other countries" in Syrian official statistics.

44. The foreign trade figures are based on Turkish official statistics (see <http://www.turkstat.gov.tr/>). The mirror data are based on the Syrian CBStat statistical abstract (see <http://cbssyr.sy/>). Discrepancies between the two sources can be observed, especially following 2012.

45. November-December 2011; see Lyme 2012, p. 29.

46. Thus, its level in 2010, while a large share of Turkish exports that year was made of electricity; see Aita (2017 A).

Syrian statistics do not recognize the Turkish origin of these imports, even if the data is based on the whole of Syria while the country was divided between the government of Syria (GoS), armed opposition groups (AOG), Syrian Democratic Forces (SDF) and Islamic State (ISIS) control. They place Turkish trade in the informal “other countries” origin. Thus, if Turkish statistics are considered, the share of Turkey in Syrian imports would have reached around a quarter of the total, most of it smuggled into the country through nonofficial border crossings.

In fact, despite the conflict between the Turkish and Syrian governments, Turkish products were widely available in the GoS-controlled markets where most of the population is located.⁴⁷ This was the case until 2019, when Syrian customs cracked down on all products imported “informally” from Turkey.⁴⁸ Similarly, SDF forces called for a boycott of Turkish products.⁴⁹

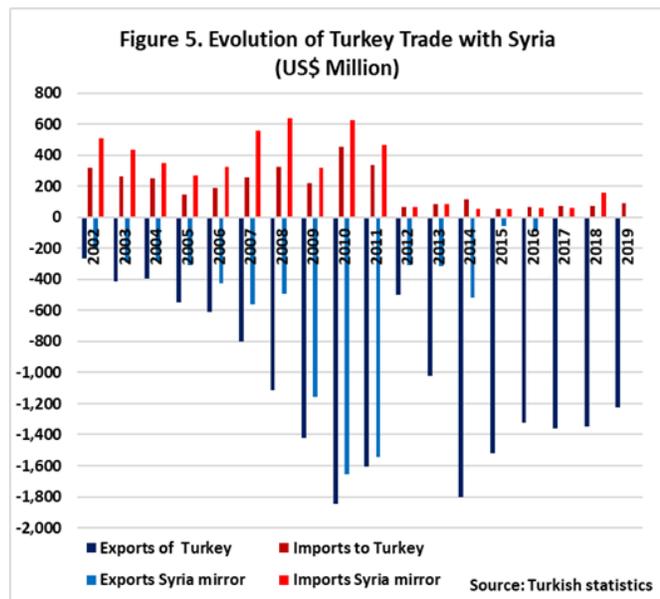
It is unlikely that Turkish exports will be reduced significantly even with the decline of revenues for the Syrian population. In fact, these Turkish exports are mainly produced in South East Anatolia, whose economy developed significantly in the wake of the U.S. invasion of Iraq in 2003 and U.S. sanctions on Iran. Turkish authorities are suspected of dumping practices to sustain this development.⁵⁰

Turkish imports from Syria were mostly comprised of oil, which dropped drastically after 2011. Turkey banned the import of most Syrian goods, even those produced in the areas controlled by the AOGs that it backs. However, smuggling from Syria to Turkey continues.

The unilateral measures thus resulted in making Syria strongly dependent on imports from Turkey. More importantly, these imports are made through border crossings controlled by AOG factions, including jihadist and terrorist organizations, according to United Nations Security Council resolutions on one side and pro-GoS militia on the other. They represent a major source of revenue for both, in turn prolonging the conflict.

E. Syrian Exports

Besides oil and its derivatives, Syrian exports were mostly comprised of agricultural, agri-food, textile and chemically manufactured products, such as detergents and pharmaceuticals. The U.S. measures on financial transactions and on Syrian individuals’ and companies’ bank accounts had greatly perturbed the Syrian private sector’s foreign trade. Following the looting and destruction



47. <https://www.enabbaladi.net/archives/356545>

48. <https://www.enabbaladi.net/archives/284189>

49. <https://www.enabbaladi.net/archives/347469>

50. See <https://bit.ly/2C5kft0> and Samir Aita: Is Turkey the factory of MENA?, IFRI 2018, unpublished.

of Aleppo’s industrial facilities in 2012-2013, some remaining facilities were transferred, and others emerged in other locations in Syria, mostly around Damascus and in the coastal region.

The Syrian private exporters organized their activities around a federation of exporters,⁵¹ which played a role in organizing fairs for Syrian products in Lebanon, Egypt, Iraq, Iran, and the UAE, as well as guaranteeing and organizing financial transactions.⁵² Limited initially to rare maritime and airfreight, “informal” roads and cross-border points were opened with Iraq in addition to those with Lebanon.

F. Foreign Trade Procedures

Following the 2011 unilateral measures, the major problem for Syrian foreign trade became overcompliance related to de-risking by foreign banks and companies for imports and exports related to Syria. Even if the products concerned were not on the list of forbidden items, the procedures involved and the risks of sanctions led international banks to refuse most corresponding banking activities related to Syria. Foreign companies applied similar de-risking. Insurance companies dramatically increased insurance costs for shipments. Shipping companies also reduced calls to Syrian ports. Moreover, most airlines stopped landing at Syrian airports and Syrian air carriers reduced their flights to only a handful of countries.

A large share of the Syrian foreign trade then passed through neighboring countries, particularly Turkey, Lebanon, and Iraq. Their procedures and financing passed to the informal sector. During the worst fighting in Aleppo, raw materials were imported from Turkey by AOG-linked businessmen, then lightly manufactured in GoS or AOG areas of control and exported through SDF areas to Iraq.⁵³

Even with much smaller amounts compared to the preconflict years, Syrian imports and exports did not stop, and even saw a partial recovery in 2018. Syrian exports reached US\$2.4 billion in 2018.

The unilateral measures resulted in most foreign banks’ and companies’ applying a de-risking overcompliance modus operandi, moving Syrian foreign trade and financing to the informal sector.

IV. The Indirect Impact of the Unilateral Measures

A. The Unilateral Measures and the Political Economy of the Conflict

The unilateral measures⁵⁴ impact the behavior of actors in Syrian society and the economy, as well as foreign countries and companies. From an economic perspective, this significantly increases the “transaction costs”⁵⁵ in the domestic market and in foreign trade, as a large part of the foreign trade and financing has moved from public to private and from formal to informal.

The “transaction costs” are due to the circumvention of unilateral measures through smuggling forbidden imports or countering international financial transactions. They are also due

51. Created in 2009.

52. SAWAH, Nasser (2018): Exporting experience during siege; Syrian Economic Sciences Society.

53. Aita, 2017 B.

54. The analysis below concerns the unilateral measures imposed on the country and on state institutions, and not individuals. Many of the initially listed individuals made their legal way to be delisted and the mechanisms that took place passed from the listed individuals to others.

55. For the definition and discussion, see Anguelov, 2015.

to the extra costs imposed on financial transactions, on shipping of goods and delivery of services and on insurance. But other transaction costs emerged with the division of the country into different zones of control, as each zone was trading with the others through “border crossings” across frontlines. And this applied to both imported (e.g., from Turkey) and local products (such as oil).⁵⁶

Surely, this led to the weakening of state resources and institutions, allowing large leverage to the powers controlling the informal foreign trade and the cross-frontline internal trade. Not only did the transaction costs create significant financial resources for the warlords and militias on all sides of the conflict, but they also gradually contributed to developing resources for the controlling *de facto* powers to sustain the partition of the country.

In the initial stages of the conflict, the transaction costs increased dramatically due to the unilateral measures. These costs profited the forces supporting the central government and had counterproductive impact on the declared intentions of unilateral measures, which was pressure to stop the repression. In fact, these transaction costs generated large revenues reinforcing the “security services” which used to control the smuggling mechanisms. The population had to bear the extra costs. The resources for livelihood were reduced, diminishing the capacity of resistance to oppression. The resulting impact was a reinforcement of these “security services,” the decline of the population’s livelihood, and the weakening of state institutions (Figure 6).

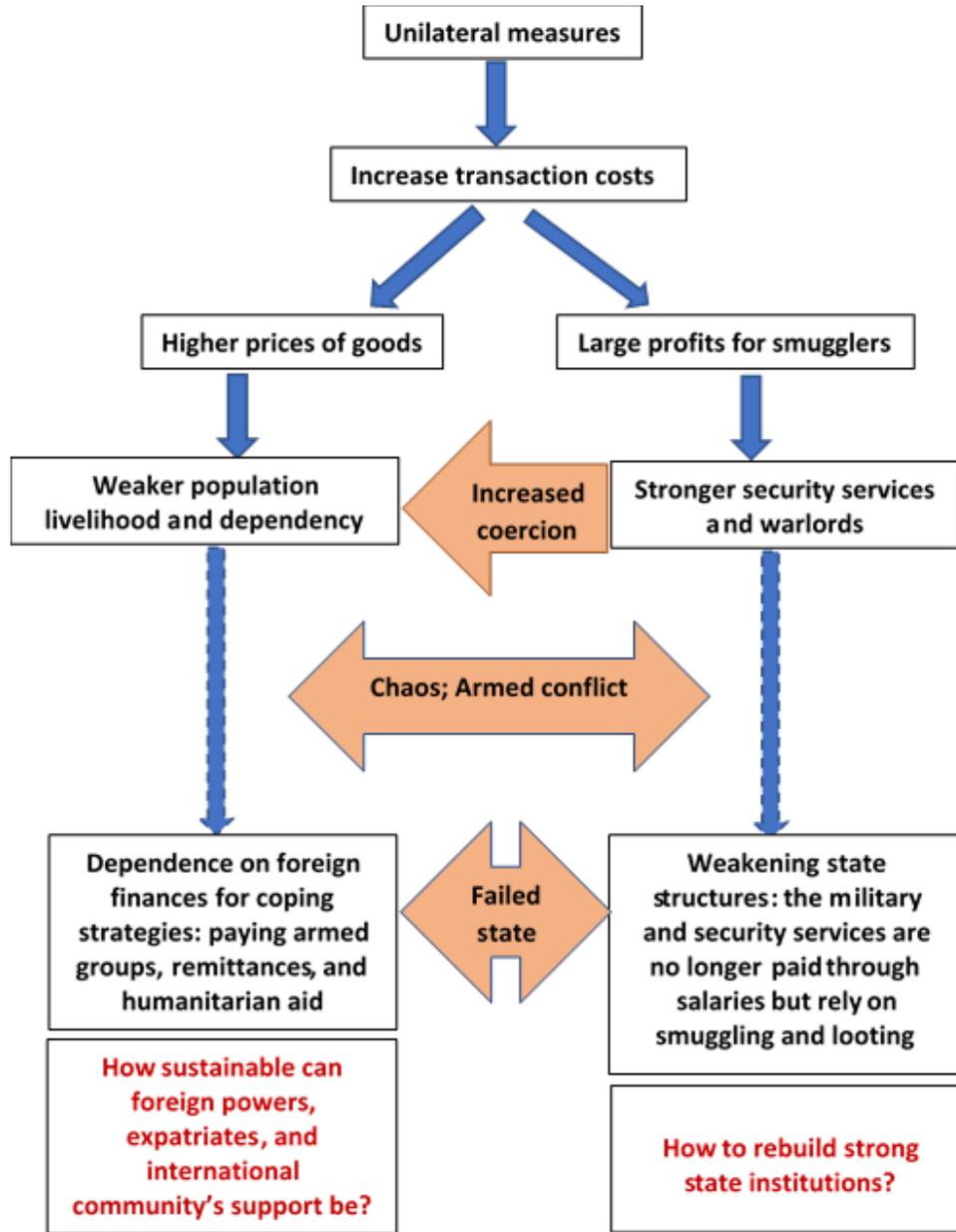
It is worth noting that these mechanisms were prevalent to a certain extent in Syria prior to the conflict, due to the preconflict U.S. unilateral measures. For example, imports of computers were restricted in Syria as they have more than 10% U.S. content, while they were widely available in the Syrian markets through smuggling or importation of spare parts to be assembled locally.

The weakening of the population’s livelihood in the early stages of the conflict had resulted in an increase of reliance on external financing in the form of remittances from Syrians abroad, finances to armed groups, looting, or international aid. On the one hand, the state finances decreased significantly, while the resources of the “security services” increased at the expense of the regular army. The power system⁵⁷ in Syria mobilized militias for coercion and cracking down on the uprising, based on informal mechanisms, including looting and “royalties” at checkpoints. On the other hand, the AOG became dependent on direct financing from external powers or on remittances from political networks abroad, mostly from Gulf countries. These resources increased significantly at the second stage of the conflict, especially toward extremist organizations. The international aid was less present, at this early stage, through international NGOs. This negatively impacted the direction of the uprising from slogans like “freedom and dignity” to calls for foreign intervention and internal war to “free” the land.

56. It is worth noting that most of the literature on unilateral measures on Syria does not take into account the country’s division as a major parameter of their impact; see Aita, 2017 B.

57. “Power system” designates the president and the surrounding first circle, which in some occasions enter in conflict with state institutions. It is preferred here over the more controversial but widely used term “regime.”

Figure 6. The Dynamics of Unilateral Measures



Thus, the unilateral measures played a significant, although indirect, role at the early stages of the conflict in cracking down on the Syrian uprising and its transformation into a chaotic armed conflict with the rise of extremist groups. The lack of controlled financing of the extremist groups, along with the imposed unilateral measures, had a detrimental effect on the outcome.

From 2013-2016, the Syrian conflict transformed into a full war and the country became divided into different zones of control: by the government of Syria (GoS), armed opposition groups (AOG), Kurdish People's Protection Units (YPG) (later to become Syrian Democratic Forces (SDF)) and the Islamic State (ISIS). The informal foreign trade and financing, as well as the

internal trade, was shared between the various controlling powers and groups. The effect of the “transaction costs” increased significantly to constitute a dominant economic factor.

In particular, the impossibility of accessing crude and refined oil in all zones of control as a result of unilateral measures led to the establishment of a peculiar trade between these zones. The crude extracted from the oil fields, mostly situated under ISIS or later SDF control, was transported to the AOG zone, where imports of small refineries were possible. The refined products, even though low quality, were then re-distributed between all zones.⁵⁸

Other products that could not be imported directly in GoS control zones used to find their way from Turkey to the AOG zones on its border (Idleb and northern Aleppo) or from Iraqi Kurdistan to the SDF zone, to be smuggled to the GoS zone where most of the population continued to be concentrated. These internal and foreign trades “by necessity” significantly profited armed groups on all sides, including ISIS and “Al Nusra Front” (later named Hay’at Tahrir Al-Sham, HTS), the latter *de facto* controlling the border crossings with Turkey.⁵⁹

The economic activities during this later stage found ways to adapt to the unilateral measures and the conflict. Production assets not looted or destroyed were moved to areas away from frontlines and few new assets were created to serve the population’s needs, although those needs were reduced. The imports of goods were made mostly through Turkey and Lebanon, crossing frontlines; their international financing was mostly insured through Lebanese and GCC banks. Surely, the exchange rate of the SYP was deteriorating with the effects of the unilateral measures on Syrian exports. However, this was somehow balanced by the large flow of financing in hard currencies to combatant groups, as well as by international and regional aid.

Thus, during the latter stages of the conflict that included intense fighting, the unilateral measures played a significant role in endlessly fueling the war and indirectly generating significant financial resources for the combatants on all sides through informal economics. A large part of the population, and the SYP exchange rate, became strongly dependent on the flow of foreign finances and aid.

In the very last stages of the conflict, ISIS control of territories declined, de-escalation agreements were signed, large parts of the country returned to the control of GoS forces, and Turkey occupied areas in the north, northeast and northwest. The country was divided into three zones: GoS with Russian backing, SDF with U.S. backing, and AOG with Turkish and EU backing. This is surely a simplified representation, as lines of confrontation are ever changing.

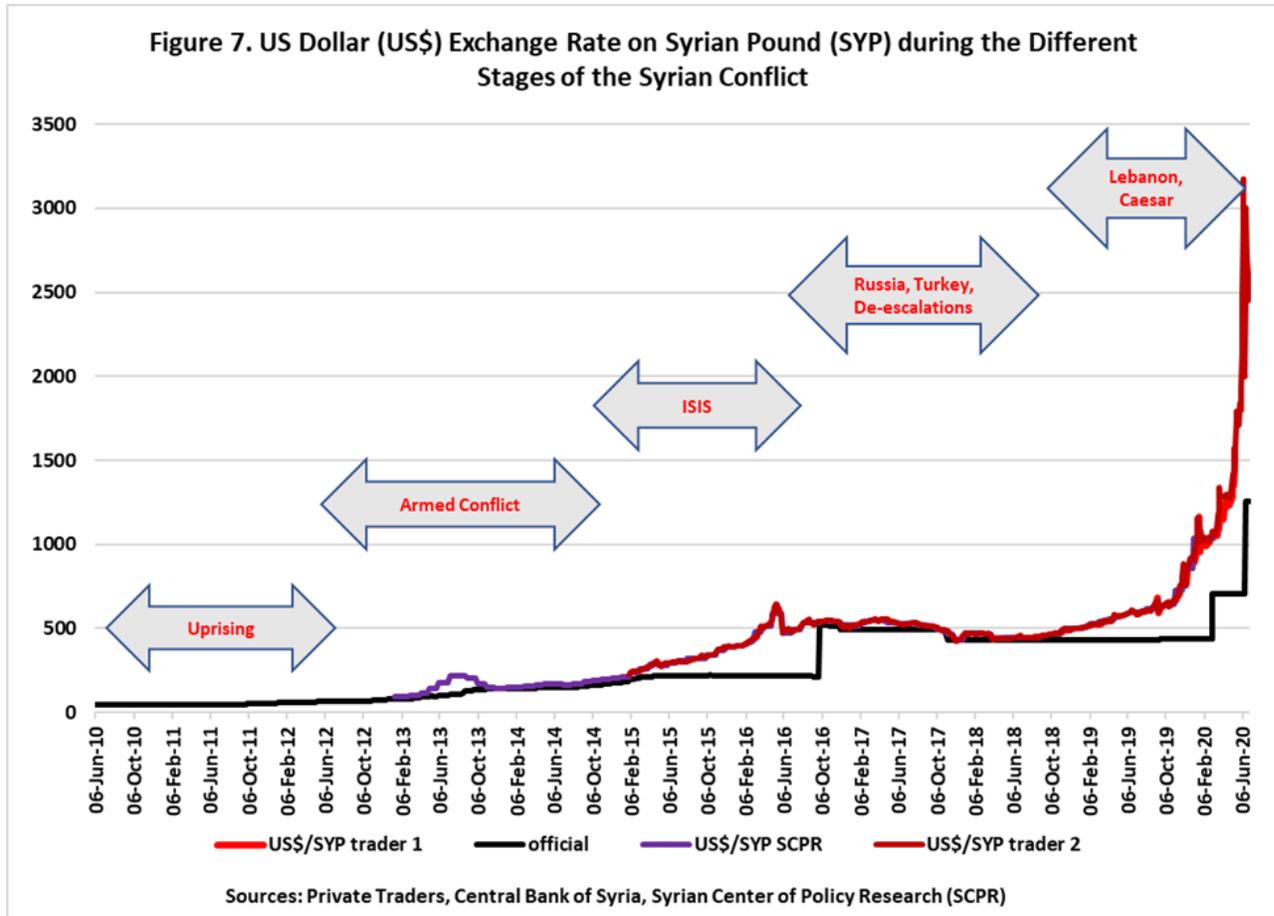
A certain level of stability of the population’s source of livelihood was observed compared to the earlier stages, despite the continuous fighting on some frontlines. This was due to the support of international aid, mostly through the UN in the GoS zone, and through INGOs in the two other zones. The country experienced exchange rate stability and even SYP value improvement for around three years, as well as some economic recovery starting 2017.

This continued until the summer of 2019, when the Lebanese financial crisis started to become clearer, along with the threats of the Caesar Act. One of the major ways to circumvent the unilateral measures (i.e., Lebanon) began faltering when the many small and large Syrian businesses and middle-class population had their assets blocked in the Lebanese banking system starting in October 2019. The effects of the Caesar Act also began to appear, even before it came

58. Aita, 2017 B.

59. In some periods, other AOG groups controlled formally the border crossing, as Ahrar Al-Sham. However, HTS had set checkpoints away from the direct border and controlled effectively the crossings.

into effect on June 17, 2020, with foreign businesses taking even more conservative de-risking measures when dealing with any Syrian business. But, more importantly, the availability and flow of hard currencies were significantly disrupted. The SYP exchange rate collapsed dramatically at the same time as the now floating Lebanese pound (LBP) (Figure 7).⁶⁰



The disruption of hard currency flow started earlier in 2018 with a large reduction in financing of AOGs and the strong limitation finally exerted on them, including ISIS and Fateh Al Sham (HTS), but also with the considerable reduction in relief aid as the areas controlled by AOGs shrank gradually. However, it was the start of the Lebanese crisis in October 2019 that led to severe negative consequences on the Syrian economy and its finances with unforeseeable ultimate outcomes. This is because Lebanon had played a major role in the adaptation of Syria’s economy during the 2011 unilateral measures. The strong threats on Lebanese players to be listed under the Caesar Act added to the pressure and to the unpredictability of results, not only on Syria, but also on Lebanon. The “transaction costs” resulting from the Caesar Act in the context of the Lebanese financial crisis should be seriously considered, as the role of Lebanon in the Syrian economy cannot be ignored and could result in major deprivation (famine) and chaos (local fighting over meager resources) in Syria. But this could also be the fate of Lebanon as the Lebanese economy

60. Cercle des Economistes Arabes calculations based on information from currency exchangers.

— and its population and refugees’ livelihood — has become strongly dependent on imports of cheap basic agricultural products from Syria.

Also, the fact that this is occurring in an already *de facto* divided Syria and in selective ways in each zone of control can lead, through the financial and economic mechanisms that the unilateral measures will foster “by necessity,” to the deepening of the division to levels that make reunification difficult or even impossible.

Despite a certain level of recovery in livelihood and resilience in 2018 and 2019, in the last stages of the conflict before the Caesar Act, the unilateral measures led the Syrian economy to become strongly dependent on the Lebanese economy. The financial crisis in Lebanon severely impacted the Syrian economy, with the foreseeable risk of major deprivation (for example, famine) and chaos in both Syria and Lebanon. The implementation of the Caesar Act added to the complexity and perpetuation of both crises and left Syria even further from any hope of reunification.

B. The Unilateral Measures Procedures, De-Risking, and Overcompliance

It is necessary to stress that the unilateral measures introduce complex and cumbersome mechanisms and procedures that have to be undertaken by foreign economic actors wanting to continue their trade relations with Syria, even within the private sector and for products not listed as forbidden. Submitting an export authorization file to the U.S. Office of Foreign Assets Control (OFAC) or other control agencies requires effort and time that leads to large transaction costs and risks.

Consequently, most foreign players, whether banks or companies, have resorted to de-risking practices for all transactions concerning Syria. Foreign banks stopped correspondence banking relations with Syrian banks, even with private banks that are not listed by OFAC. Regional banks that having invested in Syrian private banks have mostly cut off relations with the latter. With the Caesar Act, Western banks extended this de-risking to include many Lebanese banks. This overcompliance practice has made the financing of any transaction involving Syria extremely difficult, even if the products are for humanitarian needs.

Similarly, most foreign companies adopted a de-risking practice, ending licensing agreements with Syrian manufacturers (particularly in the pharmaceutical industry) and no longer dealing with export orders when the final destination is Syria.

Even U.N. agencies and INGOs must pass through complex procedures to deliver humanitarian aid. As noted in guidelines for humanitarian actions, “Whilst EU, UK and U.S. sanctions regimes specifically envisage the possibility of licenses to allow otherwise sanctioned activities in the context of humanitarian work, these licenses are often reported as complicated and time consuming to obtain and apply.”⁶¹ As “in complex high-risk sanctions environments, those delivering humanitarian aid will often need to utilize essential services which may be owned or controlled by a designated actor. For instance, in Syria, notable examples include access to telecommunications and transportation networks, such as Syrian Airlines,”⁶² and even the purchase of fuel in gas stations. Thus, “in some high-risk environments, certain desirable measures are in fact, impractical, and strict compliance with such requirements could preclude any humanitarian assistance from being provided. The combined effect of the conflict, compliance

61. Walker, 2020, p. 26.

62. Walker, 2020, p. 29.

concerns and the presence of financial sanctions has unintentionally eroded the ability for humanitarian actors to facilitate international payments into Syria.”⁶³

Foreign economic actors work on the basis of their assessment of future perspectives and risks. They then apply de-risking and overcompliance practices far stricter than the content of sanctions. “For this reason, financial institutions and exporters will often go well beyond what is actually required. In essence, a ‘compliance buffer zone’ is implemented. In the case of Syria, the response normally leans towards a voluntary boycott. Even where goods and finance may be possible, the legal costs associated with undertaking due diligence and acquiring a license may in some instances be higher than the value of the goods and services.”⁶⁴

This aspect is obscured in public communication related to the unilateral measures, while the problem is well known by the authorities imposing these measures. In particular, no real mechanisms have been put in place to deal with the generalized de-risking and overcompliance for humanitarian products. This obfuscation brings a different perspective on U.S. and EU statements suggesting that no harm to the population is done, such as European External Action’s (EEAC) declaration: “At all times since sanctions were imposed in 2011, Syrians have still been able to buy food, medicines and other goods produced in Europe.”⁶⁵ Syria did not import large quantities of food and medicines prior to 2011, instead producing those internally. Thus, the “unintended” consequences of unilateral measures have implications for practices of foreign trade and financing, as well as on the internal mechanisms of the Syrian economy, including for basic livelihood.

Thus, the complexities of the compliance procedures with the unilateral measures have led to significant extra transaction costs borne by the population, and to major difficulties in provisioning of nondesignated products, as a result of the de-risking and overcompliance practices by foreign banks and companies. No effective mechanism was put in place to address the consequences of this de-risking and overcompliance for the population regarding humanitarian goods, even for the U.N. agencies and INGOs.

C. Listing Individuals and Organizations on Unilateral Measures

Unilateral measures were presented as only targeting individuals responsible for human rights abuses and war crimes. However, state organizations were also listed, as well as individual businessmen. Both had complex implications on the political economy of the country.

The very early listing of the Commercial Bank of Syria, by far the largest bank in the country, and the only bank responsible for the financing of foreign trade of state establishments, resulted in making all public procurements challenging, even for humanitarian purposes. This measure did not benefit emerging private banks, which were unable to finance imports of the public sector, nor much of the imports of the private sector (see Section VII below). In fact, the measure resulted in the transfer of financing foreign trade to the informal sector and to neighboring countries. Similarly, the OFAC listing of the Agricultural Cooperative Bank, which mainly lends ingredients for agricultural production, severely undermined the agriculture sector in Syria. The listing of the state oil trading company blocked not only Syrian oil exports, but mainly Syrian oil imports.

Among the individuals listed are businessmen accused of supporting the GoS’s abuses. This was obviously the case for some of them, such as Rami Makhlouf and the companies he

63. Walker, 2020, p. 5.

64. Walker, 2020, p. 26.

65. <https://www.syriahr.com/en/168805/>

controls or used to control.⁶⁶ But, some of the businessmen who were named initially in the listing managed to delist their names through legal procedures, which was true also for some private companies and banks.

The listing of individuals and private companies changed the political economy of the country, pressuring individuals not connected to the ruling power to act as intermediaries for the listed persons and companies, or to leave the country. This disruption of the political economy makes all remaining resident businesses more and more dependent on the GoS.

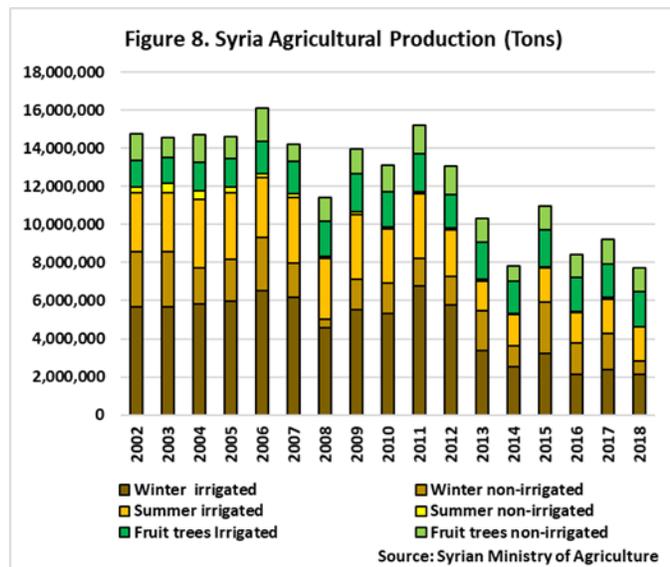
In addition to individuals directly responsible for human rights abuses or crimes against humanity, the unilateral measures have sanctioned state institutions, individuals, and private companies accused of supporting the GoS or dealing with it. This practice has had complex implications for the political and economic mechanisms of the country.

V. The Impact on Agriculture and Food Security

A. Syria's Agricultural Production

Despite the general water scarcity in the country, agriculture has always played a significant role in Syria's economy. Prior to the conflict, the country had achieved a good level of food security. A number of dams and a network of irrigation canals had been developed in the different water basins,⁶⁷ especially since the 1980s. In fact, the policy of food security came as a response to the U.S. unilateral measures already imposed that had led to a long period of deprivation, ending in a financial collapse in 1986.⁶⁸

Statistics of agricultural production are closely monitored by the Syrian Ministry of Agriculture (MOAAR)⁶⁹ and tracked by both the United Nations' World Food Program (WFP) and Food and Agricultural Organization (FAO)⁷⁰, as well as by the U.S. Department of Agriculture (USDA).⁷¹



66. It is worth mentioning that Rami Makhoulf was not named on the new Caesar Act listing of June 17, 2020.

67. See ESCWA & BGR (2013): Inventory of Shared Water Resources in Western Asia; E/ESCWA/SDPD/2013/inventory, June 20, 2013.

68. Aita, 2008.

69. <http://moaar.gov.sy/>

70. See example FAO/WFP 2019.

71. See example <https://bit.ly/2yCUAqC> and <https://bit.ly/3ekV4jW>.

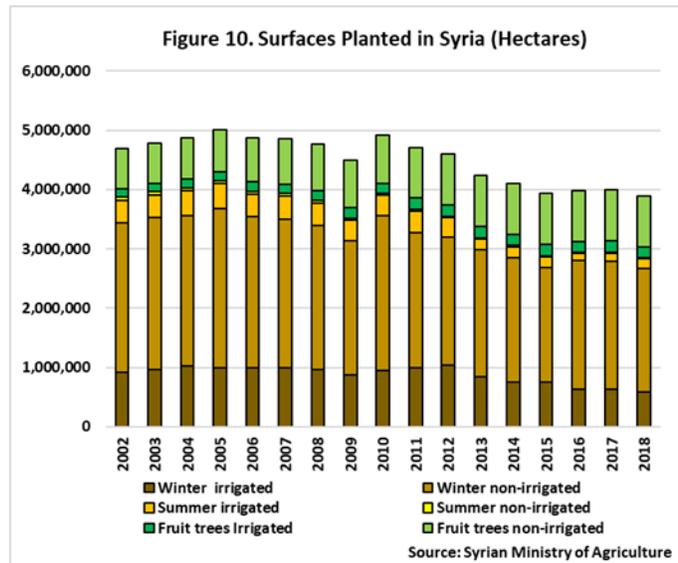
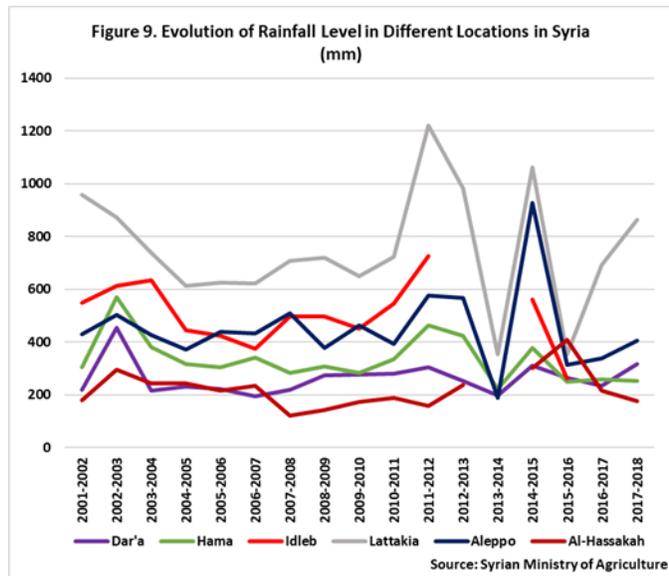
Despite much smaller planted surfaces, the production of irrigated land had always been much higher than that of the non-irrigated land, for winter crops and vegetables, summer crops and vegetables, and fruit trees. In addition to water, fertilizers, improved seeds, and other products were used to gain much higher yields. This allowed a relative stability of the total production across the years despite large variations in rainfall⁷² (see Figures 8 and 9).

With the development of the conflict, Syria gradually lost around 20% of its total planted surface (Figure 10). The highest losses were for irrigated summer crops (reduced by 70% in 2016 compared to the 2002-2011 average, then recovering slightly to only 61% reduction in 2018). Irrigated winter crops lost one-quarter of the total surfaces planted – the loss increasing in 2018 to 39%. The yields of irrigated winter and summer crops diminished to one-half of their 2002-2011 average.

This resulted in the reduction of total agricultural production from its 2002-2011 average by 45% in 2014, 23% in 2016 (noting that 2014 and 2016 were years of drought,⁷³ see Figure 9) and 41% in 2018. This occurred even though in 2018 there was a partial recovery while rainfall was relatively better. In 2018, irrigated winter crops lost 63% on average and irrigated summer crops lost 51%.

The loss of irrigated surfaces could only be partially attributed to the displacement of the population, as it was usual in Syria for farmers to work, in addition to their own plots, on land left idle by other farmers. All sources confirm that the main reason is the lack and high cost of fuel for pumping water, as well as other ingredients for high yields (seeds, fertilizers, insecticides, etc.).

The nonavailability and high cost of fuel for pumped irrigation due to the unilateral measures resulted in a major reduction of irrigated planted surfaces and crop production. This significantly affected the food security of the country, which became strongly dependent on rainfall.

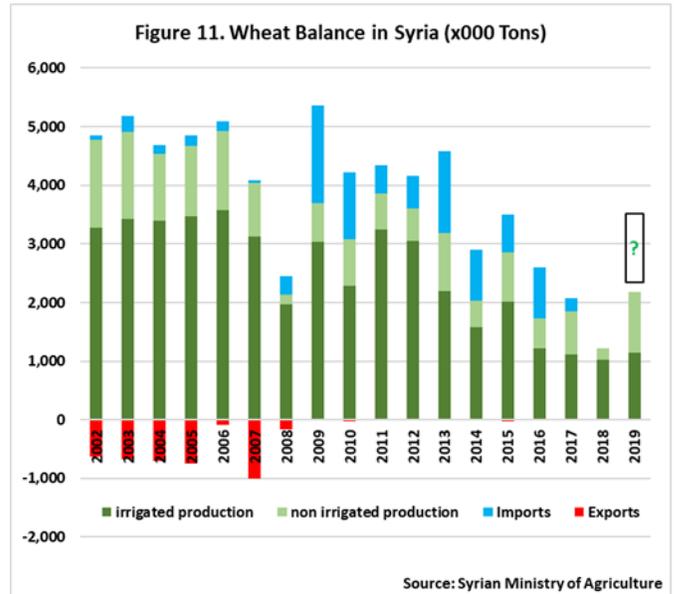


72. Except for the years with exceptional rainfalls as 2006 or exceptional drought as 2008.

73. As was 2018. It is worth noting that the quantity of rainfall is as important as the periods of rain for the production of non-irrigated crops.

B. Wheat Agricultural Production and Food Security

In the early 2000s, wheat production was stable in Syria, with surpluses over yearly needs⁷⁴ that had helped the stockpiling of strategic reserves and left additional stocks available for export (Figure 11). The exports reached around 700,000 tons yearly from a total production of around 4.8 million tons. These exports largely surpassed the imports of “soft” wheat used for the production of white bread, as the Syrian wheat was mostly made of durum, the “hard” wheat used for pasta. For food security, the country would accumulate strategic reserves of around 4 million tons corresponding to around two years of local consumption of flour for bread.⁷⁵



74. The yearly needs of the country were around 3.8 million tons: 2.2 for making flour for bread; 0.45 as seeds for the following year, and the remainder as various products (burghul, frikeh, etc.). Between 1.8 million and 2.5 million tons were delivered yearly to GoS institutions. 60% of production was of “hard” wheat (durum) and 40% of “soft” white wheat.

75. <https://al-akhbar.com/Arab/44852>

Box 2. Interview with a Syrian specialist in agriculture (June 25, 2020)

The indirect effects of the unilateral measures included the financing of imports and exports through the Central Bank or the Commercial Bank of Syria, using intermediary companies for all operations as most government entities were sanctioned. Inflation hit both the material used for agriculture (fuel, seeds, fertilizers, equipment, etc.) and the prices of the produced goods; prices increased for freight and insurance for imports and exports; and formal exports to neighboring countries were limited. The GoS was forced to stop importing directly from producing companies, as these companies stopped their direct exports to Syria.

The direct impacts related to fertilizers, forage, seeds for vegetables and crops, pesticides, fuel, equipment, tractors, harvesters, spare parts, modern irrigation equipment, greenhouse equipment, animal vaccines, etc. Private monopolies of imports and exports ended in the hands of traders who could circumvent the unilateral measures. The “informally” imported materials were often not tested according to standards, which impacted public health and the environment.

As a result, there were great variations in the surfaces planted and in the crops. The crops needing the use of complex products, government support, heavy irrigation, large manpower and long conservation were abandoned.

The planting cycles were no longer applied, which affected land fertility and the spread of pests. The lack of fuel led to the logging of productive trees for heating. In addition, Syria lost much of the genetic origins of many plants and animals, as these were destroyed or looted and illegally exported; for example the International Center for Agricultural Research in the Dry Areas based south of Aleppo (ICARDA) was looted during the fighting.

This happened while Syria was regularly suffering from periods of drought, as in 2007-2008 and more recently in 2014 and 2016. Despite the lower production and surplus, the country continued to export wheat within the framework of its partnership agreements with Arab countries, namely Egypt, Jordan, and Yemen in 2007, especially as wheat prices were increasing significantly.⁷⁶ The strategic reserves fell then, and this led to significant increases in wheat imports at the end of the decade.

During the conflict, Syria’s production of wheat decreased significantly, reaching a minimum in 2018 when the production reached only 25% of its average level of the early 2000s. This was accompanied by the looting of food security reserves during the armed conflict (particularly in 2013-2014) and selling mostly to Turkey and Iraqi Kurdistan. The country became completely dependent on the variations of yearly production and on international aid, in all areas of control. Wheat production improved a little compared to its minimal food security level in 2019 due to exceptional rainfall. However, total production was only 46% of the average level in the early 2000s (Figure 11).⁷⁷

Consequently, Syria has been importing an average of 500,000 tons of wheat yearly since 2011, paid mostly in cash from foreign reserves. This includes the Iranian credit line, which, on two occasions, helped import 200,000 tons.⁷⁸ The origin of other imports is unclear.

76. <https://bit.ly/3eo1FKp>.

77. Data until 2017 from <http://moaar.gov.sy/> and of 2018 and 2019 from FAO/WFP 2019.

78. Interviews with agriculture experts; see also <https://syriadirect.org/news/damascus-struggles-to-secure-wheat-supply-amidst-coronavirus-crisis/>

In both 2018 and 2019, the irrigated production of wheat had fallen to less than the one-third of its average in the early 2000s. The total wheat production thus depended largely on rainfall levels. The collapse of production resulted only partly from lower surfaces planted and harvested as a result of the conflict. The irrigated surfaces planted with wheat were reduced by only 28% in 2019 compared to the average during the early 2000s. But the yields of irrigated lands dropped more significantly to half their average in the early 2000s. The use of fertilizers, improved seeds and other agricultural material dropped significantly as their costs increased dramatically and their availability decreased.

Box 3. Interview with former official of grains and mills directorate (June 10, 2020)

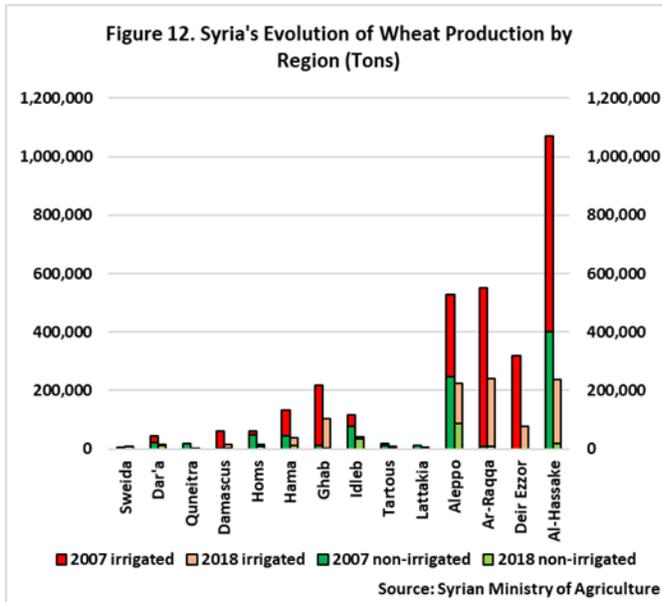
Prior to 2005, Syria was self-sufficient in wheat production. It used to export adjusted quantities and keep a strategic reserve.

In 2006, some traders were allowed to export to Iraq, breaking the balance of strategic reserves. The exports continued until 2008, despite extreme drought, to Egypt, Jordan and Yemen, in the name of “Arab food security.”

Starting from 2014, the [opposition’s] “interim government” received financing from Qatar to buy wheat at better prices than GoS; but production was low.

The lower production was due to population displacement, damage to land, crops and silos, as well as to high fuel and fertilizer prices. Fertilizers from Turkey are very expensive (US\$300/ton). In 2019, SDF bought all production and sold it to GoS and the opposition through traders. Despite higher costs, it remained much less expensive than imports.

The problem is in the purchasing power of the population. There is a need to subsidize bread prices. What goes for wheat goes for other products. For example, Aleppo governorate produces large quantities of potatoes, which cannot be commercialized or exported.



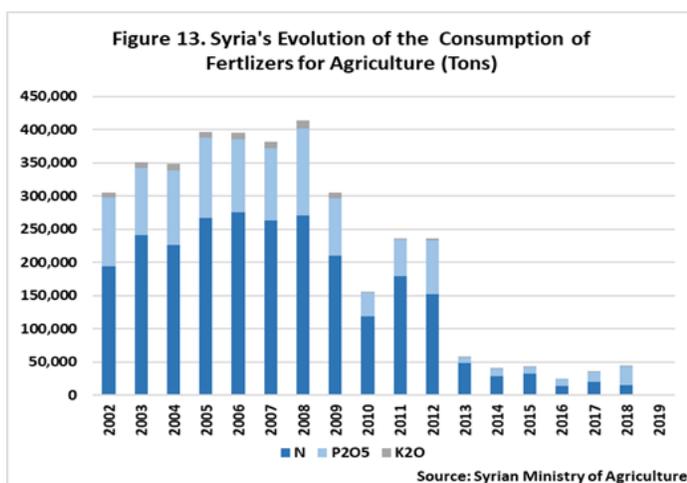
Regionally, the largest reduction in wheat production (83%) was observed in the governorate of Al-Hassakeh, which in 2007 produced more than one-third (36.4%) of total Syrian production. Its share in the total dropped to 20.9%. This is also the case for other governorates mostly controlled by the SDF, with a reduction of 76% for Deir Ezzor and 56% for Ar-Raqqa. Aleppo governorate lost 60% of its production, but its share of the total increased from 19.2% in 2007 to 25.7% in 2018. Crop fires were only partly responsible for such reductions.⁷⁹

79. According to FAO & WFP, 2019, p. vi: “The Government estimates that 85 000 hectares of crops were burnt this year. Many of the fires may have been started accidentally, but there is evidence to suggest that some were started maliciously”; this is while around 1 million hectares were planted with cereal crops.

The drop of yields in irrigated wheat production, resulting from the high cost of fuel, fertilizers and other material as a consequence of unilateral measures, brought Syria below its needs in terms of food security; in addition, the strategic reserves were looted or used. This made Syria dependent on wheat imports, partly made possible through the Iranian credit line.⁸⁰

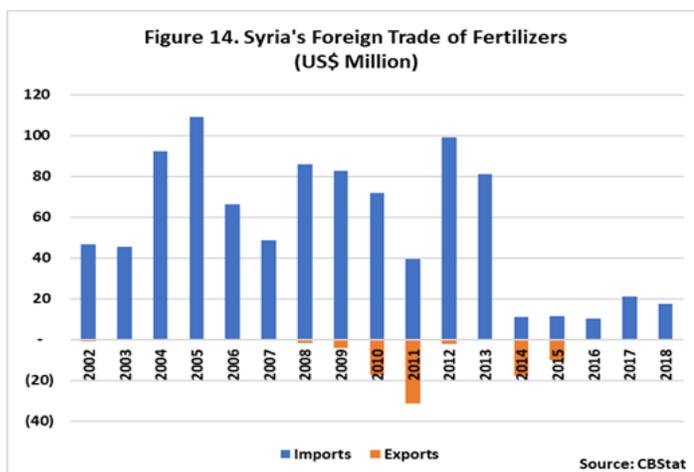
C. Fertilizers

Syria's agriculture used to consume between 300,000 and 400,000 tons of chemical fertilizers in the early 2000s. These were distributed at subsidized prices to farmers through the Agricultural Cooperative Bank (ACB), as loans in kind, reimbursed at the delivery of the crops. The largest share of usage was for nitrogen-based urea, ammonia and "Kalentro" (N), followed by superphosphate (P2O5), with much lower quantities of specialized potassium nitrate (K2O) (Figure 13).



The local production of the fertilizer plant in Homs was not sufficient. Around US\$100 million worth of fertilizers were imported yearly (Figure 14) as the GoS used to stock around half of the yearly needs to protect against fluctuations in international prices.

In 2004, international prices of fertilizers increased significantly, causing ACB to lose billions of Syrian pounds. A decision was made in 2009 to free the fertilizer market, allowing imports by the private sector, while subsidizing farmers with other means through a special fund.



In 2011, the GoS returned to the policy of subsidizing fertilizers, as their importation was difficult⁸¹ and their costs increased significantly because of the unilateral measures. But this proved to be an unsustainable policy and subsidies were largely reduced in 2013 and imports declined drastically. In 2018, a fertilizer pack (50kg) was sold by GoS at SYP15,000 (around US\$34), but with very low availability. Its price in the black market was around SYP25,000 (US\$57), while its price in Lebanon was around SYP90,000 (US\$207) and in Turkey around SYP135,000 (US\$310, in AOG control zones) or SYP180,000 (around US\$413, in SDF control zones, to be paid in U.S. dollars and not in SYP).⁸²

80. Around 500,000 tons yearly.

81. As some can have dual use.

82. Interviews with agriculture specialist in AOG-controlled zones. It is to be noted that urea 300 fertilizer is no longer available in all zones of control in Syria, as it is used as an ingredient for explosives (barrel bombs).

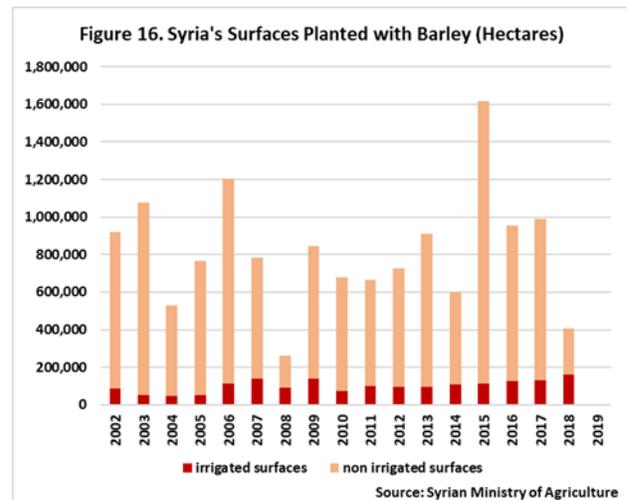
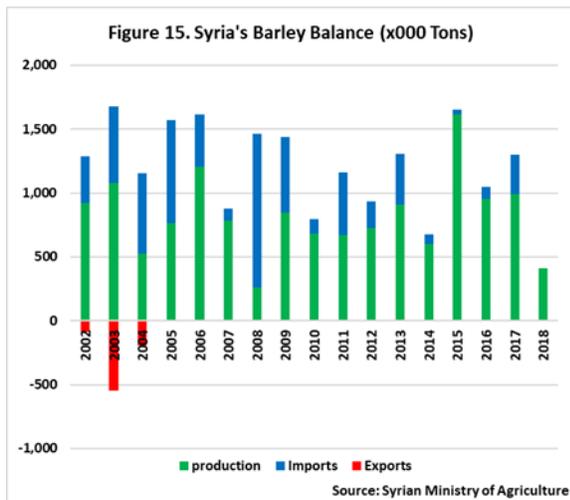
Following the emergence of the conflict, the production of the Homs state-owned fertilizer plant dropped in 2012 and almost stopped completely, especially after ISIS took control of the gas and phosphate fields. It was only in 2017 that the production resumed again, and the GoS signed a production-sharing agreement in 2018 with OAO StroyTransGas, a subsidiary of the Russian Gazprom,⁸³ in line with an agreement on the exploitation of the phosphate mines. The return to production was, however, hindered by social conflicts,⁸⁴ as well as by the lack of fuel and electricity as a result of the unilateral measures. Also, there were major pollution issues on the Qattina lake where it was located.⁸⁵

The unilateral measures led to the almost complete discontinuation of imports of fertilizers into Syria. Along with challenges to local production, this led to the abandonment of fertilizer usage in most agricultural production, especially for wheat production, and the decline of yields to almost half of their irrigated land.

D. Barley

Prior to 2011, Syria's yearly needs for barley, mainly used as sheep fodder, were estimated at 1.5 million tons. Some stock was also preserved to protect against price fluctuation. The local production was mainly grown on nonirrigated land and varied depending on rainfall between 750,000 and 900,000 tons (Figure 15), which was below annual needs. Syria was known to import barley, historically, between 550,000 and 900,000 tons yearly. Moreover, barley was also exported when international prices were favorable.

The abandonment of irrigation of large crops led some farmers during the conflict to move from wheat to barley (Figure 16), a policy encouraged by GoS to reduce imports, especially as sheep flocks dropped (see below).



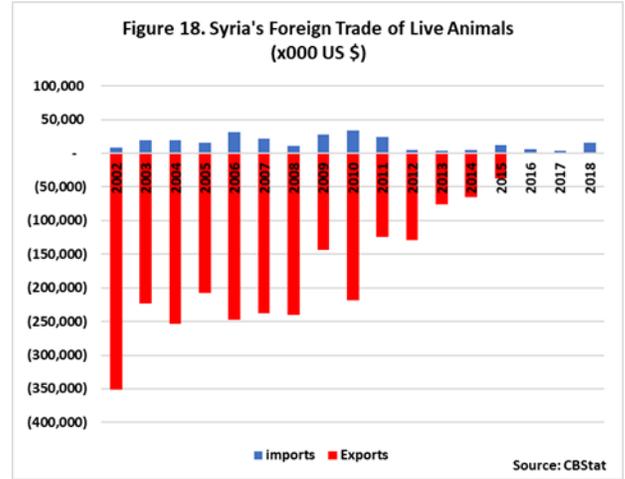
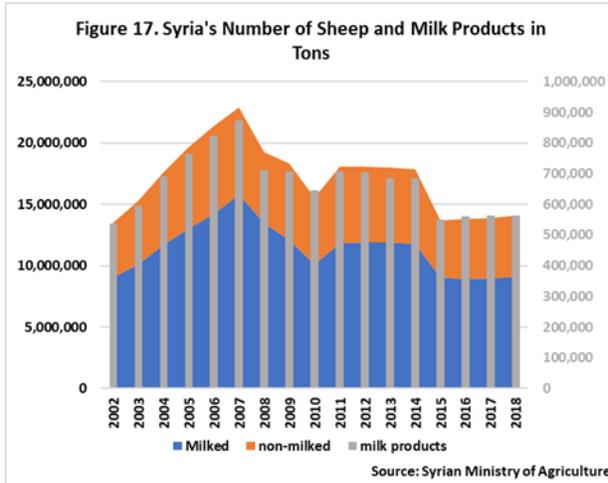
83. <http://bit.ly/32x7oc1>

84. Concerning complaints on working conditions in this plant, see <https://nedaa-sy.com/en/news/12778>

85. See Aita, 2020 A.

E. Sheep

Syria is known in the region for its sheep farming and exports;⁸⁶ the meat is praised and sold at higher prices than that of New Zealand, for instance. In the early 2000s the availability of sheep was growing steadily, around 14% yearly. This would feed local consumption and leave significant quantities for export. The total number of sheep reached around 23 million in 2007 (Figure 17), despite exports of live animals varying between US\$250 million and US\$350 million yearly (Figure 18).



86. The exports are made of live animals and not processed meat.

Box 4. Interview with a Livestock veterinary specialist (July 1, 2020)

Livestock activities have been an essential part of Syria's farming system and an important source of household income. Prior to the crisis, livestock accounted for 35% to 40% of the country's total agricultural production and occupied about 20% of the labor force in rural areas. In addition, 35% of rural households raised livestock as their main source of food and income. Mutton exports alone generated foreign currency estimated at approximately US\$450 million yearly, and in 2010 the country exported 871,000 sheep (FAO statistics).

The poultry sector, which employed, directly and indirectly, more than 1 million workers, was also an important foreign exchange earner with significant exports of meat, eggs and day-old chicks. In 2010, 76,000 tons of hens' eggs were exported (FAO statistics). Poultry production was mainly a private-sector activity, with a public-sector share of less than 10%. The General Poultry Association (GPA) estimates that 80% to 90% of poultry farmers have left production operations due to the reduction of aid and state subsidies and a lack of operators' confidence in the recovery of the sector.

Cattle and goat stocks, though smaller than sheep and poultry stocks, were also an important source of rural employment. Households that owned cattle as part of a mixed-farming operation would typically have had fewer than 10 animals. In addition, there were 11 state dairy farms. Before the crisis, MAAR supported services for the livestock sector such as extension, fodder rations, cultivation of pasture, seeds and seedlings, digging of wells in Badia (Syrian Steppe) to provide water for the population and livestock, grading and improving activities, artificial insemination to enhance the productivity of local breeds, vaccination, various livestock treatments, veterinary drugs, improved breeds, and research services. Some of those services are still active.

The crisis has considerably disrupted the performance of the livestock sector. The reduction in the number of animals, general insecurity, the difficulty in marketing, increased feed cost and, to a lesser extent, insufficient veterinary coverage were frequently cited among the most limiting constraints. Similar opinions were voiced by traders and butchers who found live animals to be expensive because of a number of factors including the high prices of animal feed and uncontrolled exports (or smuggling) of livestock.

A general rule in livestock economics is that farmers, in the years of good rainfall, are not faced with feed constraints, so they try to keep their animals for reproduction to increase their future income. Consequently, prices of animal products (milk and dairy products) generally decrease as they are widely available, but prices of meat increase because fewer animals are sold.

The main problems of the livestock breeders are the following:

- High cost of livestock feeding and breeding.
- High cost of animal medication/treatments. This leads to the reduction of animal production (milk, meat, etc.) because of the shortage/lack of adequate feed and treatments to animals and of high prices. This leads the households to sell their livestock.
- The main challenges continue to be high fodder prices and insufficient coverage of veterinary services. Sheep breeders are keen to reduce their flocks in response to high feed costs, although buyers are few.
- Lack of adequate awareness on how to treat/cure and maintain livestock health and protect from diseases.
- Numerous livestock owners had moved to safer areas; some have brought their livestock with them, while others have sold off their stock or, in some cases, simply abandoned them.
- High pressure has been put on pastures in safe areas to which livestock owners from insecure areas have brought their herds and flocks.

The drought of 2007 and 2008 had severe implications, as the fodder situation became more complicated with the severe decrease in pasture. The number of live sheep decreased, following the reaction to produce meat and increase exports. The recovery of 2011 was quickly hit by the unilateral measures that complicated the export network and financing, mainly to the Gulf countries. This was followed by the impact of the conflict with the smuggling of large numbers of sheep, mainly through Lebanon,⁸⁷ on one hand, and the drastic diminution of local consumption

87. An interview with an expert on the issue indicated that there was one weekly air cargo from Beirut to the Arab Gulf

of sheep meat, and meat in general, as the population revenues dropped significantly, on the other hand. All this came in addition to the difficulties to obtain fodder.⁸⁸

The total number of sheep stopped its natural increase and dropped to around 14 million in 2018. Official exports declined steadily, until completely disappearing in 2016. The country became an importer of live animals. Local sheep meat production declined from around 200,000 tons yearly to around 130,000 tons.

The unilateral measures largely contributed to the consumption reduction of sheep meat, as well as the revenues of the Syrian sheep owners. This led also to the loss of an important source of Syrian exports.

F. Cotton

Cotton was one major industrial summer irrigated crop in Syria, a large consumer of water. Around 755,000 tons per year were produced, on average, during the 2000s. The cotton production was largely subsidized as it served the local textile industry and was partially exported. It was mostly produced in the Jezireh governorates (Al-Hassake, Deir-Ezzor and Ar-Raqqa) as well as in Aleppo.

With unilateral measures, the increase of production costs, and the difficulties of export, cotton production dropped to 22% of its decade average in 2013 (Figure 19). The decline continued in the following years, especially when large quantities were burned in storage fires in Jezireh and Aleppo in 2016. 2017 and 2018 experienced some recovery, but the production of 2018 hardly reached 11% of the 2000s average.

88. The corn imported from the U.S. was mostly used as fodder.

Box 5. Interview with the owner of a spinning and weaving facility in Homs with 20-30 workers (June 2020)

All ingredients for production are available in the market, including imported products such as polyester, but at high prices. The major problem is electricity. It is available in the industrial cities (Hasya near Homs, 'Adra near Damascus, Sheikh Najjar near Aleppo) five days a week, but with frequent cuts. Generators and fuel for local electricity production are also available in the market. However, prices are unaffordable.

The cost of production increased significantly with the higher cost of fuel (SYP180 at the subsidized price, and SYP350 for free price). An industrialist can theoretically obtain subsidized fuel from the governorate. But due to thefts and favoritism, they usually rely on the free market.

Owners of large industrial facilities benefit from tax exemptions, as they are licensed in the industrial cities where electricity is available. The larger obstacles are faced by industrial SMEs, mostly situated outside the industrial cities, while most of these businesses sell their production for large factories.

The large depreciation of exchange rates has major impact, as it affects the cost of imported production inputs and inflates local prices. This is while we used to export to Lebanon and Iraq, and these exports used to cover other losses. We even made profits during the last years, after adapting with the first difficult years of the conflict. Sometimes the profits were higher than those of the preconflict situation. The major problem today is that we are strangled because of Lebanon's collapse. We have no more U.S. dollars for our exports and we can no longer buy our inputs through Lebanon.

We never stopped exporting to the Arab Gulf. Even when the border with Jordan was closed, we used to export by ships through Lebanon or by land through Iraq and Kuwait. However, the border with Iraq had been closed recently with no declared reason by the Syrian national security office.

The distribution of our products is an issue. But we know that our products reach opposition areas.

We have also a problem with the customs services. The 4th Division had taken control of the port as well as of all crossing points. They impose their "royalties," but the cost is reasonable. We added it to the costs, and we still have margins. The problem is bigger with the customs services as the Ministry of Finance pushes them to collect fees on all "irregular" things. They collect for the ministry and for themselves. Their "raids" on factories had become nightmares. They ask for old customs clearance for equipment imported 20 or 30 years ago. If we don't show them, arbitrary fees are imposed. Then, there are negotiations to reduce these fees against their royalties. The issue is that they never deliver a clearance for that in order to come back regularly.

The state cotton gins still buy the majority (more than 95%) of cotton production. Despite the decline in production, it is sufficient to cover the local market. The gins provide fibers to the market. The other inputs are imported (nylon-polyester and some threads) from China.

The active spinning companies are those of Al Waleed (Homs) and of Jableh. They provide the raw materials for the large companies of Shabarek and Sayem Daher near Aleppo. These large factories were never damaged during the conflict, though they are situated on frontlines and changed control several times. These large factories, as well as most large factories, continued operation during the conflict. They paid royalties to all factions to preserve their operations. Most of the damage and destruction occurred on SMEs and crafts.

The pharmaceutical industries also didn't stop operating during the conflict. They have large profits from exports to Iraq. Their export proceeds were provided in cash or through Lebanon or by hawala. We never lacked hard currencies during the conflict. This came only with the crisis in Lebanon. Most large traders and industrialists adapted as if Syria has returned to the period of the 1980s. My father and his friends say that it is preferable to return to the control regime. The market shall then be controlled, and this opens the way for good relations with high-ranking officers.

The future seems bleak. We, as large industrial factories, do not fear sanctions, but the Lebanon path for money transfers. 99% of our operation is made in U.S. dollars. The collapse of Lebanese banks was a big blow for us. We have now returned to make banking operations by phone or fax, like in old times. But the amounts are significantly reduced. And more importantly, there is no more cash.

In 2007 and 2008, cotton fiber exports were already severely hit by the drought. However, 2010 showed a significant recovery (Figure 20). At the start of the uprising, the complex system of cotton fibers' value chain was strongly disrupted. Then it became almost completely nonoperational, especially after the dismantling and destruction of the industrial facilities in Aleppo, the most involved in the cotton valuation. Also, the possibility to export cotton stopped due to the foreign finance restrictions introduced by the unilateral measures, especially the measures on the Commercial Bank of Syria, which was the most involved in the international trade of cotton.

In the face of these difficulties, the surfaces planted with cotton reduced drastically to one-tenth of the former decade average.

The unilateral measures and the conflict strongly disrupted the value chain of cotton, especially with the rise of irrigation costs. One of the major products for local private industry and a major source of exports declined drastically.

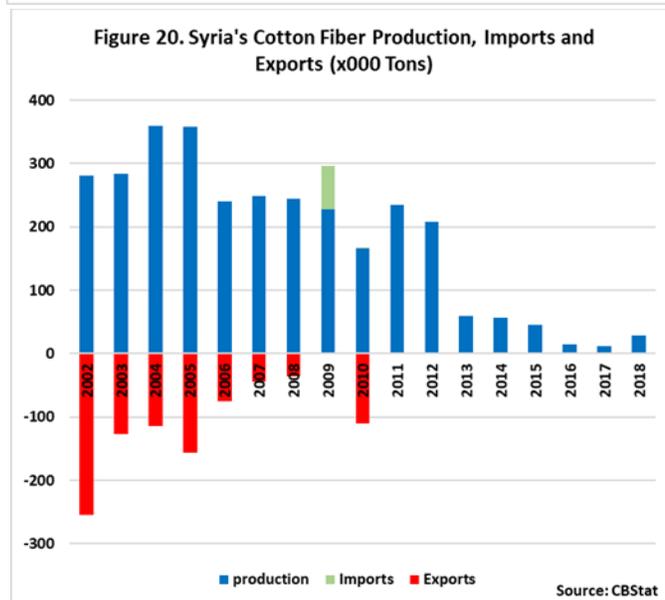
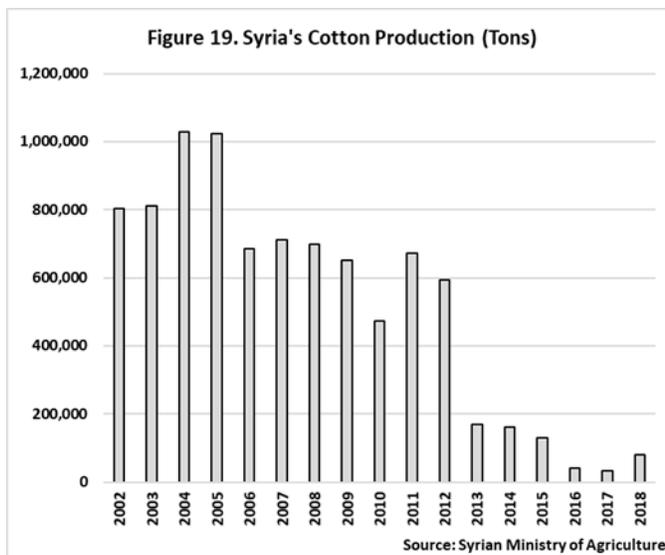
G. Tomatoes

The example of tomatoes illustrates the production of fruits and vegetables in Syria.

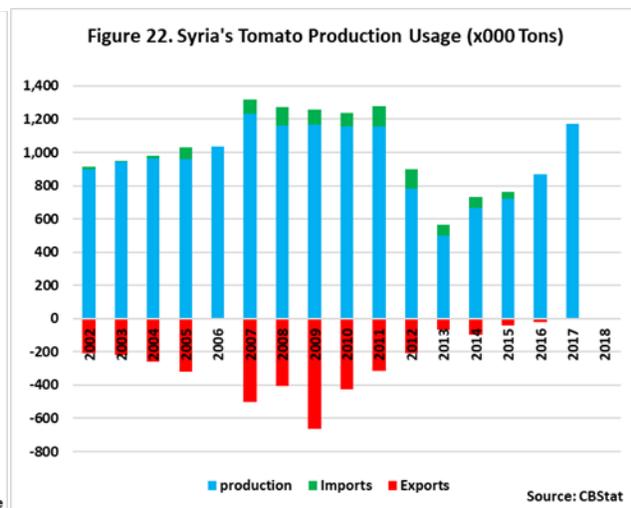
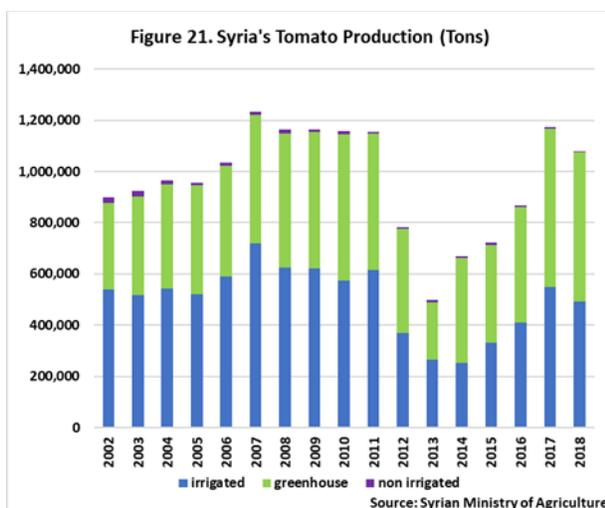
Tomatoes are produced in the spring, summer and autumn, mostly on irrigated land (half of the 2010 production grows in Der'a governorate⁸⁹ with modern drip irrigation) as well as in greenhouses (87% of 2010 production grew in Tartous governorate) (Figure 21).

Tomato is an important crop for both local consumption and export. Between one-third and half of total production was exported yearly as fresh product, and other significant shares were transformed to preserve.

Difficulties of exports were experienced as early as 2011, even if it was mainly to neighboring and regional countries. And the exports continued to decline continuously until almost disappearing (Figure 22). This decline in (official) exports resulted in a decline of production, more pronounced in Der'a (irrigated) than in Tartous (greenhouse), as the latter had more access to the informal export networks to Lebanon.



89. Mostly in the well irrigated western part of the governorate, around Nawa; see Aita, 2020 B.



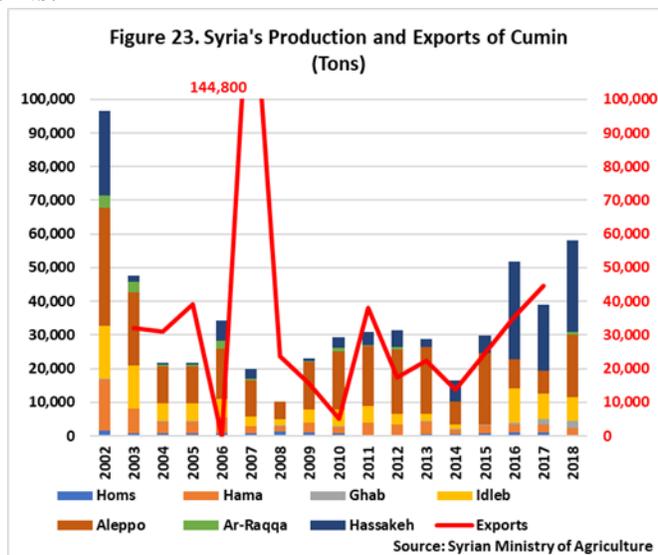
The production recovered gradually after 2015, including in Der'a under AOG control, but more rapidly in Tartous. Der'a production suffered from transportation and commercialization networks within Syria, as well as of the lack of fuel for the transformation of a higher share of the production to preserve. The factories were forced to use olive dregs as energy to continue operating.⁹⁰ Tomato preserve can more easily use informal exportation networks than fresh tomatoes.

The unilateral measures strongly disrupted the fruits and vegetables value chain in Syria and strongly reduced their official export. As local consumption fell and prices increased, farmers became dependent on informal export networks.

H. Cumin

Cumin is also an important agricultural product in Syria, mostly used for exports instead of internal consumption; unlike tomatoes, it is produced on nonirrigated land; thus, it is strongly dependent on rainfall and other weather conditions.

Production varied significantly from year to year in the first decade of the 2000s (Figure 23). The GoS used to store the production for exportation opportunities. These exports were mostly made to Egypt, which mixes it with its own lower-quality production for re-export, mostly to China.⁹¹



Despite the unilateral measures, exports continued to Egypt, as Egypt does not fully comply. SyrianAir continued to fly to Cairo. However, the distribution of production had changed in more recent years. Aleppo used to comprise more than half of total Syrian production. Its share dropped to around 17% lately. The governorate of Hassakeh, controlled by SDF, took the lead on

90. See Aita, 2020 B and <https://www.sana.sy/?p=977494>

91. Interview with an expert on agricultural products.

the production (with respective shares of 56% and 51% in 2017 and 2018). And as unilateral measures are not fully applied to this zone of control with the presence of U.S. bases, the export of cumin is part of the bargaining game between SDF, GoS, Iraqi Kurdistan, and the U.S.

The unilateral measures and their selective application in different zones of control in Syria changed the distribution of cumin production in the country, making it part of the war economy and political bargaining between stakeholders. This situation applies also, and more importantly, to wheat.

Concerning agriculture, it is worth noting that a competition has emerged in the last years between GoS institutions and those of the SDF self-governance, trading and exporting major agricultural products, including wheat from the governorates of Al-Hassakeh, Raqqa and Deir-Ez-Zor.⁹²

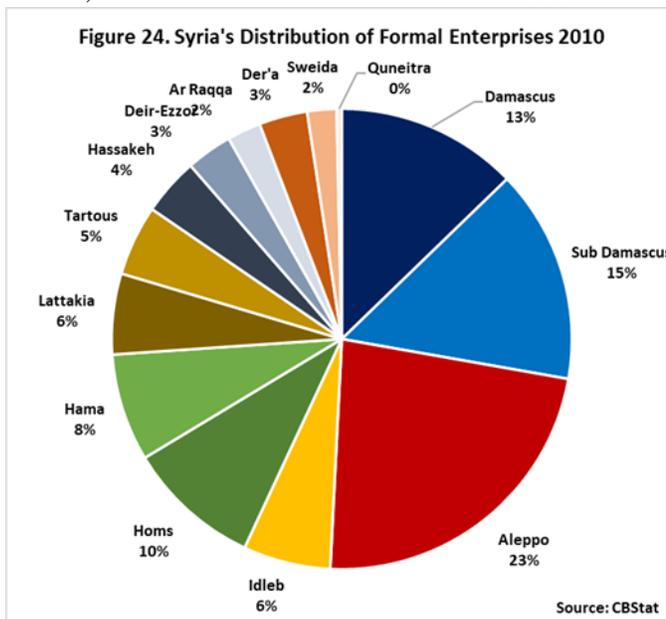
VI. The Impact on MSMEs

A. The MSMEs in the Syrian Economy

Micro, small, and medium enterprises (MSMEs) had always constituted the backbone of the private sector economy, entrepreneurship, and employment in Syria. Similar to agriculture, these private MSMEs, active in industry, crafts and trade, always had a much larger contribution to the economy and the GDP than public establishments. And this was true even in the 1960s, following the era of nationalization. The opening up of the economy in the late 1980s and early 1990s accentuated the economic role of the private sector, which accelerated further in the 2000s.

Tracking the evolution of the MSMEs in industry, crafts, and trade is more complex than that of agriculture. The statistics and surveys are rare. They indicate that in 2010, Syria accounted for 579,893 registered economic establishments with fewer than 10 workers (98% of total), 2,547 between 11 and 50 workers (only 0.4% of total), 395 between 51 and 250 workers, 65 with more than 251 workers, and 11,494 with unknown numbers of workers.⁹³ Thus, the large majority of registered establishments are comprised of micro-enterprises.

These figures are consistent with IFC assessment of formal economic establishments in the Arab region, which gives a density of MSMEs situated between 20 (Algeria) and 55 (Tunisia) per 1,000 inhabitants



92. <https://www.france24.com/en/20190611-syrias-breadbasket-kurds-regime-battle-wheat>

93. SMEDC, 2017 and the Central Bureau of Statistics. They were 399,308 establishments in 2004 growing at a rate of 3.9% yearly; see Kharboutli, 2018.

for the period.⁹⁴ Between 2006 and 2010, the largest formal establishments were growing at a more rapid pace (+5.7% yearly) than the smaller ones (+1.8%). Damascus and its suburbs and Aleppo alone made up half of the formal economic establishments (Figure 24). Compared to an average density in the country of 28 establishments per 1,000 population, Damascus hosted a density of 43, Aleppo 28, and Tartous 38. Nearly half of these establishments were in retail trade (48%), followed by 9% in wholesale, 8% in car repair, 4.5% in entertainment services, 3.7% in metal manufacturing, 3.7% in health, education and social services. Agriculture and fisheries accounted for only 2.0%, and all textile-related manufacturing accounted for 3.8%.

Another approach to estimate the number of MSMEs is through labor force surveys (LFS). In 2010, the total number of working people in Syria reached 5.1 million (only 13% women) for a total work force of 5.5 million (only 15% women).⁹⁵ Among the working population, 1.3 million were in the public sector (mostly in education and health); the remaining 3.8 million were in the private sector. 1.5 million of the latter were own-account workers, thus counted as micro-enterprises, and another 1.8 million as salaried employees, 74% of them in the informal sector. The informal economy⁹⁶ occupied 66% of the working population, 87% of those working outside public institutions and agriculture.

The number of micro-enterprises in Syria is then closer to 1.5 million instead of the 579,893 accounted for formally. These micro-enterprises were severely hit by the conflict and the unilateral measures. As noted by SCPR,⁹⁷ the “labor market in Syria lost 2.2 million jobs compared to the pre-conflict 2010 employment status”; in fact, 3.7 million by applying the counterfactual analysis and factoring in jobs that would have been created in the absence of the conflict. The public sector lost only around 200,000 jobs, while the private sector lost the remainder.⁹⁸ The own-account workers, and thus the micro-enterprises, reduced to around only 1.1 million, losing around 400,000 jobs.⁹⁹ SCPR also noted that “the unemployment rate increased from 14.9% in 2011 to 51.8% in 2016 and decreased to 42.6% in 2019.”

“A large number of informal and violence-related activities have emerged, including theft, trade of stolen goods on the black market and irregular oil refining and selling. Cross-border areas have also opened a new domain of illegal work such as smuggling, drug trafficking and trade, as well as arms trading. ... The most prevalent new activities that have appeared during the conflict are related to primitive oil refineries and fuel trade that appeared in around 30% of the total areas studied in the survey, especially in Idleb, Al-Hassakeh, and Deir-Ezzor¹⁰⁰. ... (A) survey indicated that 17% of the active population in Syria is involved in illegal activities as the result of the conflict.”¹⁰¹

The unilateral measures, more than the conflict itself, constituted the major cause for the creation of the illegal trade activities, as well as that of the activities related to the refining and smuggling of oil. They also bear a significant share of the causes of job losses and micro-enterprise activities, as well as the development of smuggling and illegal trade.

94. Kushnir et al.; 2010.

95. Central Bureau of Statistics.

96. The notion of “informal economy” refers to employment, while “informal sector” to economic establishments; see ILO; 2013.

97. SCPR, 2019, p.66.

98. Central Bureau of Statistics.

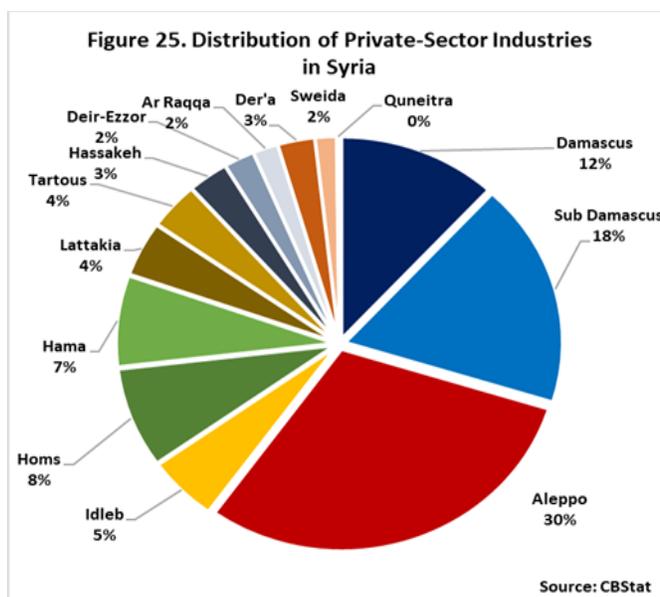
99. Central Bureau of Statistics.

100. See also Aita, 2017B.

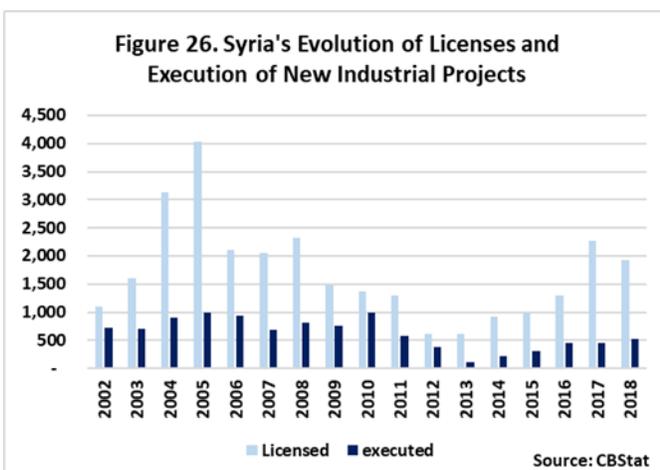
101. SCPR, 2019, p.66.

B. The Private MSMEs in Industry

In 2011, Syria accounted for 99,720 private formal industrial and crafts establishments. Comparing with the above figures on MSMEs, this means that only 17% of the MSMEs are in manufacturing, that most of these establishments had fewer than 10 workers and were mostly craftwork micro-enterprises. Industry employed 19% of those working in the private sector.¹⁰² 70,765 were employed in 2010 by private sector manufacturing. Food, textile, and small metal manufacturing were the largest employers. 30% of these formal establishments were concentrated in the governorate of Aleppo and another 30% in the governorates of Damascus and its suburbs (Figure 25).



Industrial licensing in Syria (formalization) is regulated by Law 21 of 1958¹⁰³ and by Legislative Decree 8 of 2007 encouraging investment, giving tax exemptions, and allowing repatriation of benefits of foreign investors in hard currencies.¹⁰⁴ Legislative Decree 47 of 1952 regulates craftwork.¹⁰⁵ This process of licensing allows the tracking of new establishments, as well as their effective implementation.



Excluding crafts, the Ministry of Industry and the Central Bureau of Statistics reported around 2,000 licenses granted yearly in the early 2000s (Figure 26). However, only around 800 were effectively realized.¹⁰⁶ These functioning private establishments involved each an average investment of around US\$100,000 (Figure 27) and employed an average of seven workers.

However, it must be noted that these indications on the value of investments and the number of workers were minimized by investors to reduce taxation and to avoid the formal employment of workers. Also, most of the license applications were according to the old Law 21, and not to the investment promotion laws, also to avoid scrutiny of accounts. In 2010, 31% of the implemented projects were in the food industry, 40% in chemicals (detergents, etc.), 18% in

102. Compared with only 12% in the public sector.

103. Thus, in the first months of the United Arab Republic with Egypt.

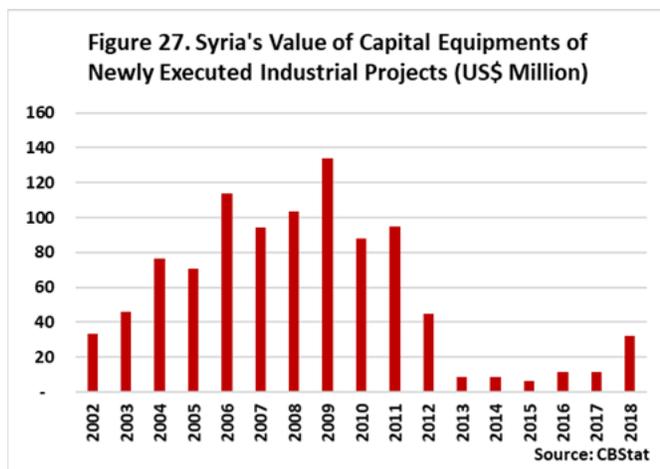
104. Replacing the then famous Law 10 of 1991, which marked opening to the private sector.

105. During the presidency of Fawzi Selu, following the coup of Adib Shishakli.

106. Central Bureau of Statistics, <http://cbssyr.sy/>.

engineering, and the remaining 12% in textiles. The engineering projects had, on average, the larger investments and the chemical the lowest.

The rapid growth in the number of license applications and in the executed projects was broken by the combined effects of 2003 unilateral measures (SALSA),¹⁰⁷ the 2005 crisis with Lebanon¹⁰⁸ and the dismantling in 2006 of the Agency for Combating Unemployment (ACU).¹⁰⁹ However, 2010 experienced around 1,000 implemented projects, almost the same as in the best years of activity of the ACU.



Box 6. Interview with a person responsible for the promotion of industrial SMEs (May 2020)

The private industrial sector had suffered from the free trade agreement with Turkey signed in 2004. This led to a large decrease in industrial projects in the late 2000s.

The conflict and the unilateral measures impacted the sector, reducing local demand as prices increased significantly. The import of raw materials had also become cumbersome, as well as their payment. The increase of cost rapidly reached more than 40%. The main export markets, mostly Saudi Arabia and Iraq, vanished. In addition, transportation of products became a major issue and the qualified labor migrated in large numbers in 2015.

There was no compensation for the destroyed industrial assets. There was only compensation for the value of buildings, limited to SYP10 million (US\$20,000). Also, the bank credits that helped the preconflict growth stopped, to be restarted again only in 2018. Additionally, the opening of the border with Jordan helped gain some recovery.

Then, the entrepreneurs adapted to the new reality, with their own means. The new investments were smaller and much more diversified than before. They were mostly concentrated in the food industry, where there is still demand, followed by chemicals, mainly detergents and plastics, and by pharmaceuticals. There is little interest in the textile industry that was one of the strong Syrian assets. Most of the projects were in Damascus and its suburbs, but also Hama and Tartous saw unprecedented growth. Everywhere, the industrial SMEs suffer from the lack of electricity and fuel and from the difficulties of financing and export, as well as from the scarcity of qualified manpower. Most of the industries work at 50% of capacity.

The crisis of Lebanon in October 2019 severely hit exports, imports and the financing of SMEs. The coronavirus pandemic further complicated matters by closing imports from China, which was the main provider of raw materials. Many outlets closed.

The government could only cope with day-by-day management of all these shocks, and no strategy. It promised the creation of an agency for insuring credits to SMEs, but this agency never started activities. Its management of the severely damaged Qaboun industrial city, near Damascus, concentrates on transforming the area to a real estate rent-seeking project. Also, its management of the official exchange rates for imports and exports is non-favorable to SMEs and too slow to adapt to changes. This is besides the depletion of hard currency reserves by the former governor of the Central Bank.

107. That had introduced complex restrictions on import of goods with U.S. components to Syria; see <https://www.treasury.gov/resource-center/sanctions/Documents/13338.pdf>

108. Following the assassination of Lebanese Prime Minister Rafiq Hariri.

109. The ACU was empowered in 2004 to foster the development of MSMEs, by the late Minister of Planning and Minister of Industry Issam Al Zaim and was abruptly dismantled to be replaced by an NGO managed by the president's spouse.

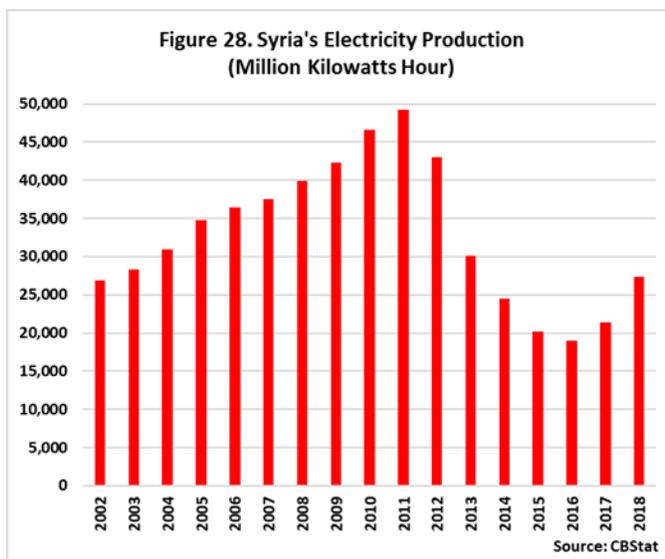
The conflict and the unilateral measures of 2011 severely affected this improvement. Only 100 projects were implemented all over Syria in 2013 (when the GDP accrued a yearly decline of -37.6% ¹¹⁰), including the replacement of the looted or destroyed establishments (Figure 26). The average value of invested equipment reduced to around US\$20,000 each. Only the year 2018 had experienced some recovery¹¹¹ (when the GDP experienced a yearly decline of only 1.9%, before a growth in 2019 of $+7.9\%$ ¹¹²), but the share of food industries increased to 40%, with the difficulties experienced in the food value chain in the country.

The conflict and the unilateral measures led to a major slowdown in the establishment of new industrial SMEs in Syria. The new projects focused on the food industry following the difficulties experienced in the food chain.

C. Provision of Electricity

Industrial and commercial activities strongly depend on the provision of electricity. Prior to the conflict, Syria's electricity production was increasing at a high growth rate of 7.1% yearly, despite the difficulties in the procurement of power plants because of the pre-2011 U.S. unilateral measures. The major share of this production was made with power plants running either on heavy crude oil or on gas. A network of oil and gas pipelines connected all Syrian plants.

Electricity production dropped only in 2012 with the transformation of the uprising to an armed conflict and with the 2011 unilateral measures. It collapsed in 2016 to a third of its 2011 level before recovering slightly in 2017 and 2018 (Figure 28).¹¹³ Most Syrian cities and villages have experienced severe electricity cuts since 2012; the provision of electricity is limited in the best cases to three to six hours per day.¹¹⁴



110. SCPR, 2019, p. 35.

111. It is worth noting that the public resumed lending to the private sector in 2018; See "State Bank Announces Resumption of Lending to SMEs," the Syria Report, Sep. 18, 2018.

112. SCPR, 2019, p. 35.

113. CBStat

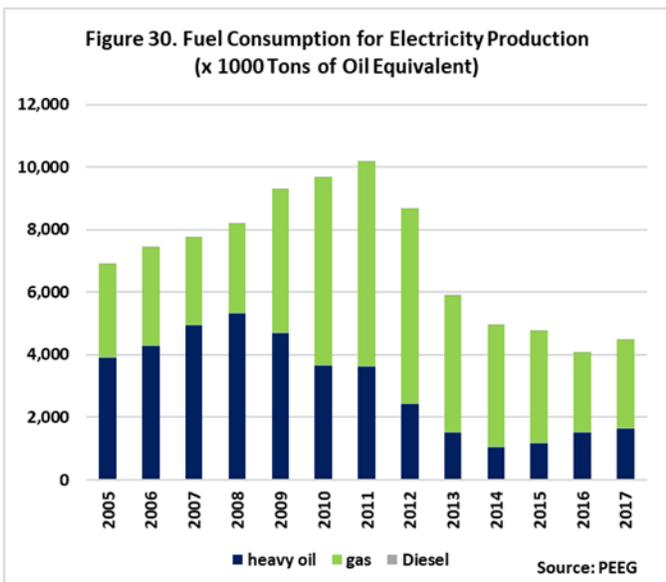
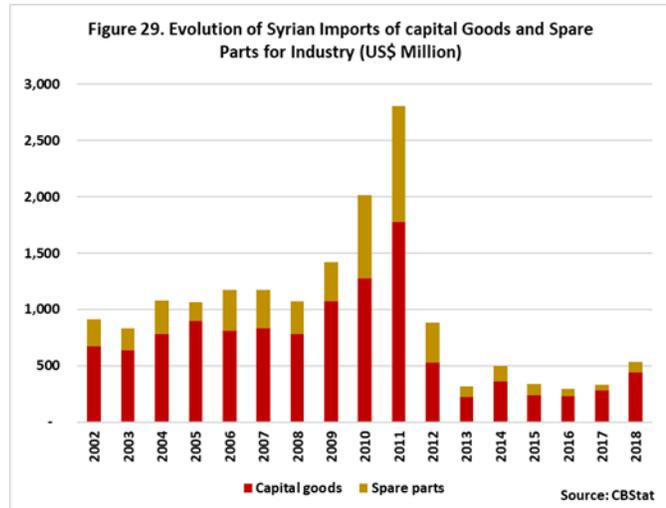
114. See City profiles on IMMAP/UrbanS/UN-Habitat <https://www.urban-syria.org/> and World Bank, 2017.

The collapse of electricity production resulted from the damage and destruction of power plants and high- and low-voltage electricity networks. The potential capacity of the power plants reduced from 6,700 MW in 2012 to 3,915 MW in 2016, recovering only in 2017 to 4,690 MW.¹¹⁵ Aleppo (steam turbine, 1,000 MW), Zeizoun (near Hama, combined cycle, 488 MW) and Al Taym (gas turbine, near Deir-Ez-Zor, 96 MW) were out of operation, as were units in many other plants. A World Bank report noted that the “low functionality of power sector assets is driven by shortages of skilled personnel, fuel, and necessary spare parts.”¹¹⁶

The unilateral measures had a severe impact on fuel as well as on the imports of spare parts. The total imports of nonautomotive spare parts dropped by 91% between 2011 and 2018, while those of capital goods fell by 75% (Figure 29). At the same time, the damage to the electricity sector was estimated at US\$4 billion.¹¹⁷ Despite that, Deir Ali power plant extension (near Damascus, combined cycle, 750 MW) was commissioned in 2013¹¹⁸ and Al Taym (30 MW) in June 2020.¹¹⁹

The effect was even higher on fuel. The Public Establishment for Electricity Generation (PEEG) had to rely on gas for its operational power plants instead of heavy oil. The share of gas in the energy necessary for electricity production rose from a third before the conflict and the unilateral measures to two-thirds (Figure 30). Opposition factions and later ISIS, then SDF,¹²⁰ controlled most of the oil production sites since 2013. The gas production sites, situated near Palmyra and Homs, experienced fierce battles for control, destruction and reconstruction during the years of the conflict.

PEEG could have imported gas¹²¹ through the Egypt-Jordan-Syria-Lebanon



115. Public Establishment for Electricity Generation (PEEG); <http://peeg.gov.sy/>

116. World Bank, 2019, p 178.

117. <https://bit.ly/3c5iVCN>.

118. This extension started to be built by the Greek Mitca and the Italian Alessandro, but it was completed locally.

119. See <https://bit.ly/2BFsOdV>.

120. The U.S. forces, now present in SDF controlled areas, forbid and bomb oil “smuggling” to the GoS controlled areas; presumably to “preserve these fields as an engine of recovery for the day when there is a post-Assad regime”; see <https://n.pr/2AP4LZg>

121. As well as Lebanon, what could have eased the present economic crisis experienced since October 2019 by this country.

gas pipeline (the Arab Gas pipeline),¹²² but this source of supply was also stopped as a result of unilateral measures and difficulties in Egypt.¹²³ Alternatively, PEEG could have imported electricity directly through the 400 kV Arab interconnection, which has the capacity to deliver 300 MW from the South. During 2011, 280.5 GWh were provided from Syria to Jordan, and 265.5 GWh were imported from Egypt to Syria, from which 235.1 GWh were re-exported to Lebanon.¹²⁴ However, these electricity exports from Egypt and Jordan were also blocked as a result of the unilateral measures.

It is worth noting that Syria continued to export electricity, although in small quantities, to Lebanon during the conflict as a way to provide hard currency resources despite the shortage experienced within the country.¹²⁵

These major difficulties with fuel led the population and SMEs to rely extensively on electricity even for heating, which had put an additional burden on electricity generation, during the first period. During the second period, the shortage in electricity led to wide installation of diesel generators as well as of batteries and solar panels in all areas of control. International aid helped to procure such generation capacities in most of the opposition- and SDF-held areas. However, the share of solar generation capacities remained globally limited, despite large efforts and financing, especially in AOG-controlled areas.¹²⁶ The reliance on diesel generators, much less energy efficient, as opposed to large power plants, put the issue of fuel supply for electricity in an even larger deadlock, fostering smuggling and informal oil trade and refining. Also, new “warlords” emerged for the generation and distribution of electricity, which in the long run could contribute to creating bargaining power that limits the possibility of returning to a normal level of electricity production, as in Lebanon following its civil war.¹²⁷

It is worth noting that the population and SMEs uprooted trees during the conflict to provide energy for heating. Some of the food factories now use olive oil dregs to supply energy for their operations.¹²⁸

MSMEs, like most of the population, were hindered by the major challenges of electricity in the country. The low availability of electricity was a result of the conflict and of the impact of the unilateral measures on oil, gas, and electricity trade, as well as on the possibilities of importing capital and spare parts.

122. <https://www.hydrocarbons-technology.com/projects/arab-gas-pipeline-agg/>

123. The gas supply from Egypt to Jordan stopped for a period, as Egypt was experiencing a domestic gas shortage. This is no longer the case, and Egyptian gas exports to Jordan have resumed; see <https://bit.ly/2VMRTcU>.

124. <https://bit.ly/2VxC6Qh>. It is unclear why GoS had not promoted the importation of solar panels at cheap prices from China, India, or even Iran.

125. See <https://bit.ly/3is7zgx>.

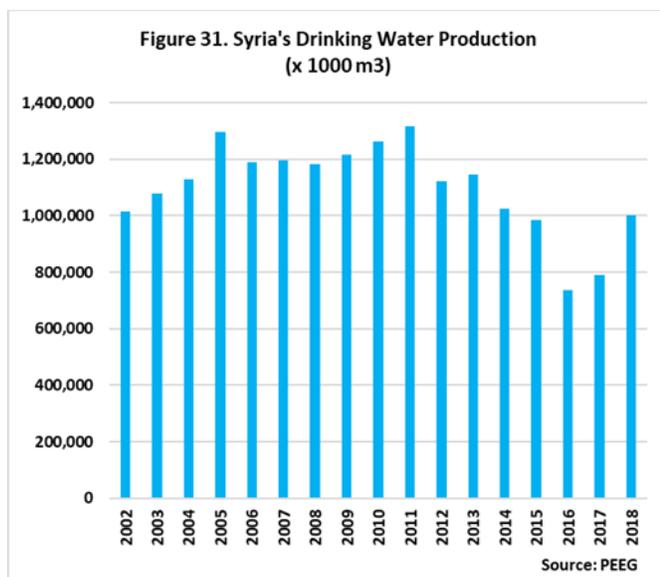
126. <https://bit.ly/3c5iVCN>

127. See for example <https://bit.ly/2VNYDbt> and <https://bit.ly/2VP4Kw2>.

128. <https://www.sana.sy/?p=977494>.

D. Provision of Water

The provision of water is also essential for a population's livelihood and for the functioning of MSMEs. Prior to the conflict, tap water production was increasing yearly at an average of 2.6%, generally corresponding to the growth rate of the population. The conflict disrupted tap water production, which decreased in 2012 until reaching a reduction of 38% in 2016 compared to the 2002-2011 average. Then it slightly increased in the following years (Figure 31). Tap water production in 2018 was still reduced by 16% compared to 2011. That means a reduction of per capita tap water production from 61.6 m³ to 50.2 m³ (19% less), if one takes into account the large displacement of the refugee population.



A World Bank report noted that “457 water supply and sanitation infrastructure assets across eight governorates... nearly two-thirds of the water treatment plants, half of the pumping stations, a third of the water towers, a quarter of the sewage treatment plants, and a sixth of the wells have been destroyed or partially damaged across Syria. ... In addition, because water is pumped by using electricity, the functionality of water services is determined by the status of the electric grid and the availability of generators and fuel. Lack of electricity was the main reason for service outages, with damage to pumping stations and piping networks being the second most common problem.”¹²⁹

The production of tap water also suffered from the lack of fuel for pumping, as well as from the lack of pumps, spare parts, and equipment to repair the damaged installations at source and along the networks. This is also counted as an unintended consequence of the unilateral measures.

E. The Pharmaceutical Industry

The Syrian pharmaceutical industry can be considered part of the SMEs, by international standards. The sector suffered from the unilateral measures. The U.N. Human Rights Council had noted in 2018 that: “Syria practices universal, free health care for all its citizens. Prior to the current crisis, Syria enjoyed some of the highest levels of care in the region. The demands created by the crisis have overwhelmed the system and created extraordinarily high levels of need. Despite this, restrictive measures, particularly those related to the banking system, have harmed the ability of Syria to purchase and pay for medicines, equipment, spare parts and software. Despite the humanitarian exemptions, in practice international private companies are unwilling to jump the hurdles necessary to ensure they can transact with Syria without being accused of inadvertently violating the restrictive measures.”¹³⁰

¹²⁹ World Bank, 2017, p. 29 and 30.

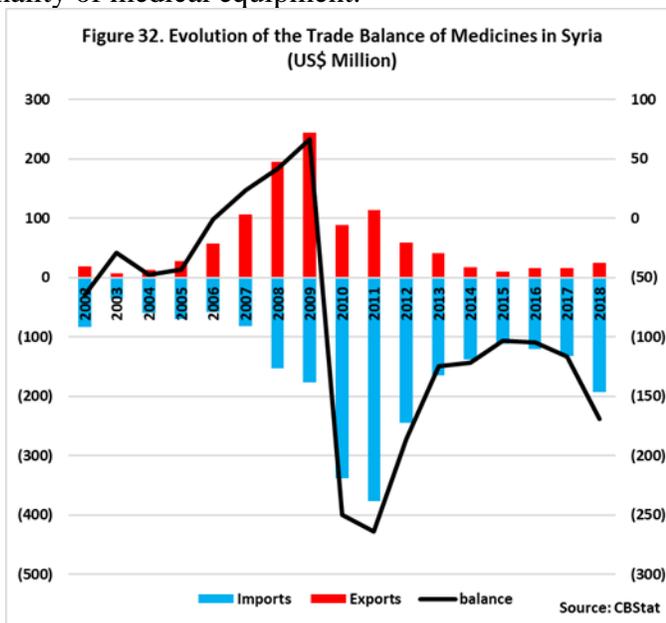
¹³⁰ UN HRC, 2019.

“Prior to 2011, more than 90% of medicines used in Syria were locally produced.¹³¹ Since then, economic sanctions, currency fluctuations, difficulty in the availability of hard currency and an increase in operational costs have negatively affected the production of medicines and pharmaceutical products and made it difficult for the country to import medicines not locally produced, such as anti-cancer medicines, factor VIII, hormones, specific antibiotics, and other specific medicines. Medicines which are patented in the U.S. or Europe cannot be substituted by other markets. As a result, available quantities of medicines are currently limited, and they often do not cover the health needs of the population.

“The most critical concerns related to interrupted maintenance services and the lack of spare parts which were affecting the functionality of medical equipment.”

In fact, the private pharmaceutical industry was very active in Syria and subsidized as a component of health security. Authorized only in 1987, 28 factories producing pharmaceuticals were established in 1991.¹³² In 2010, 70 factories were licensed, and the number even increased during the conflict and the unilateral measures, with the objective of reducing the medicine trade deficit. The number of factory licenses reached 92 in 2019. However, 19 factories went out of service because of damage and looting; the majority of these returned to operation, although at a low pace,¹³³ until recently.

Prior to the conflict, and until 2009, the pharmaceutical trade balance was positive. The production exceeded local needs. The value of exports of generics produced in Syria used to surpass the value of imports of raw products for the industry and specialized medications. However, exports declined abruptly since 2010 and remained at very low levels especially since 2014 (Figure 32).¹³⁴ Imports also declined but to a lesser level. The trade balance of medications became structurally negative, between US\$100 million and US\$200 million yearly.



131. 93% according to Ghisn, 2020.

132. Ghisn, 2020.

133. Ghisn, 2020.

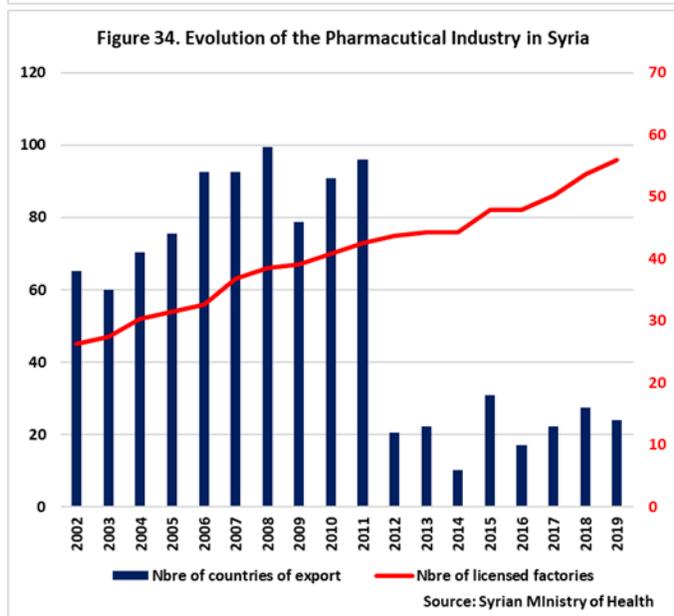
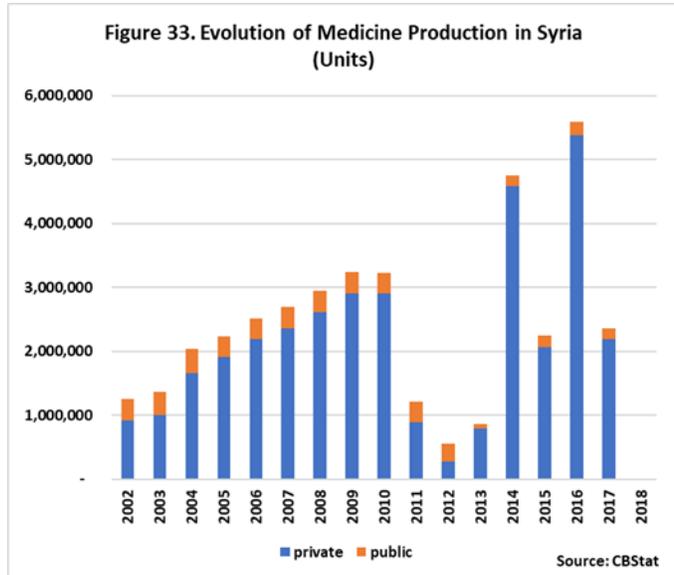
134. According to the statistical abstract of the Central Bureau of Statistics.

The production of medicine was in fact steadily growing since the early 2000s, until it was directly hit in 2011 by the unilateral measures, as foreign licenses were canceled and the importation of raw material from their initial licensures or producers was made difficult (Figure 33).¹³⁵ This was followed in 2013 and 2014 by the destruction and looting of many factories, especially in Aleppo.

New factories were erected in other places and production rose sharply in 2014 but continued to be erratic due to the fluctuations of the exchange rate and the difficulty of importing raw materials, mainly from India and China. The share of the public sector in production was already low but declined significantly.

In fact, the public policies to encourage medicine production were largely based on exports, in particular through the differences in exchange rate at which hard currencies for import and export were delivered by banks, following GoS instructions.

Surely, exports declined sharply as the number of countries willing to deal with Syrian private industries reduced drastically, in a de-risking practice following the unilateral measures. And this situation continued despite the increase in the number of factories (Figure 34)¹³⁶ and increase in the production of medicine. For



135. According to the statistical abstract of the Central Bureau of Statistics. Units add capsules, tablets, ampules and suppositories.

136 Data of the Syrian Ministry of Health; see <http://www.moh.gov.sy/Default.aspx?tabid=621&language=ar-YE>

example, more than 8,000 medications were produced locally in 2018 compared to 5,800 in 2010 and only 3,600 in 2002.

Box 7. Interview with an employee of a main medicine distributor (June 9, 2020)

The Ministry of Finance had increased the cost of medicine import from US\$400 to US\$700 and taxed 40% on turnover and not profits, while fixing the sales price to consumers. This increased drastically the costs of production. The factories complained with no result, the Ministries of Health and Finance arguing that margins are still around 30% and the manufacturers arguing that at least 70% is needed to cover equipment depreciation and market and exchange rate fluctuations. The conflict concerns also the export authorizations, that the manufacturers want to be open for all, and the export U.S. dollar pricing.

There is presently a kind of strike of the pharmaceutical industry and distributors leading to a shortage of medicine all over Syria. The manufacturers asked for a meeting with President Bashar Assad, with no answer yet.

The UN Human Rights Council noted in its 2018 report that: “As a result of the comprehensive sanctions against the Syrian government, the Ministries of Health and Higher Education are unable to directly purchase medicines from EU or U.S. suppliers. ... Some medicines prohibited by sanctions have proven impossible to substitute from other sources, such as India or China. ... Numerous medicines were identified by the WHO as unavailable on the local market, including anti-epileptic medicine and some anti-cancer medicines, as well as all U.S.-branded products. While such purchases could be made possible, each would require one or more licenses from multiple jurisdictions. Without more proactive cooperation, such complications have effectively resulted in a lack of available medicines. With the added complications related to the financial embargoes on the government of Syria, no mechanism or process has been established to date to allow for the cost-effective importation of medicines to the government ministries. As a result, the WHO has become the largest provider of primary health care in many parts of Syria.”¹³⁷

With the unilateral measures in place, Syria lost its pharmaceutical production security for basic generic medicine and an important sector of exports. Also, most specialty imported medicines are no longer available.

Box 8. Interview with a manager of a manufacturer of medical antiseptics (June 9, 2020)

We are licensed from a German company, from which we used to import raw material while they used to control our quality procedures. We were competitive prior to the conflict even in comparison with the state factory or in Lebanon. The German company stopped its relations and sending raw materials in 2016 because of the unilateral measures. They don't want to take a risk, especially receiving our transfers, even if initially they used to submit to OFAC agreement. We were not even able to pay our pro forma invoices through Lebanese banks, even in euros, and we had to use money traders. We moved then to import raw material from China. But shipping is made in the name of a Lebanese company, through Dubai, which introduced large extra costs. But now, with COVID-19, it is difficult even from China.

But the most severe issue is the Lebanese crisis. All the company working money for imports was in the Lebanese banks. It is blocked now, and we continue to operate only on our stock of raw material.

¹³⁷ UN HRC, 2019, p. 10.

Box 9. Interview with a manager of a specialist in pharmaceuticals (June 9, 2020)

The pharmaceutical industry in Damascus had been hit by the conflict, but some continued to operate even during the siege of the suburbs with their stock of raw materials. Some were displaced inside the besieged area. This is while the public Tamico factory had been looted by Al Nusra. Also, some excellent pharmaceutical researchers patenting new products were arrested for political reasons and finally left the country.

Globally, the production of pharmaceuticals was sufficient to the needs during the conflict, except for vaccines and cancer medicines, which are not produced locally. GoS used to import it.

Most of the pharmaceutical industries used to work under license from Western companies and their products were of quality enabling large exports. These industries were the first to be hit by the unilateral measures as the mother companies stopped their licenses and spare parts for the equipment could no longer be imported, except indirectly through Lebanon. There was, and still is, a major problem for the medicine used for anesthesia, as these can have dual use.

The raw materials used to be imported from India and China, which did not comply with the unilateral measures. They were of excellent quality. The same for sterile ampules, drug reagents, excipients and others. But all these experienced a significant increase in cost and delays because of all the procedures needed to circumvent the unilateral measures. The factories had to use intermediaries to import the raw material, with very large costs. All these difficulties led to the reduction of quality and efficiency of the products, and more than 30 factories stopped their operation.

There is also a problem that the owners of the factories had to have relations with the people around the regime to get their operations running, while they fear being sanctioned. They are all in this dilemma.

Recently, the pharmaceutical industry entered a crisis as GoS refused to increase sales prices to customers while SYP depreciated exponentially. This led to the ending of activities. The industrialists could not work losing money.

Some people in the opposition put the blame on GoS policies. Surely, there were negative policies, but the main reason for the decline of the pharmaceutical industry in the country is the unilateral measures.

F. The Trade SMEs

Syria has a very active trading sector, both internally and internationally. It makes up the majority of the MSMEs and was the largest employer in the country.

The various regions of Syria are very different in their production and consumption, which led to a significant share of internal trade in the country's GDP; 21% in 2010. "It was dominated by the informal sector, in the form of SMEs with low wages and low productivity relative to other sectors. The sector has traditionally played an important role in absorbing part of the labor force that left the rural agriculture sector and migrated to peripheries in cities."¹³⁸

Surely, this sector was just as severely hit by the conflict, population displacement, and the unilateral measures as other sectors. However, it had been the nexus for the development of informal and illegal activities.

As imports were hindered by the unilateral measures and their cumbersome procedures, smuggling developed significantly in order to provide goods for the population, generating high added values as "transaction costs." Turkey and Lebanon were the main sources for this smuggling.

138. SCPR, 2019. In its estimates of total GDP losses, the share of internal trade in total losses is 21%, similar to its share of 2010 GDP. The share of government services loss is much higher.

Box 10. Interview with a U.S. official on trade between SDF and GoS (June 10, 2020)

SDF trades with government-controlled areas through the Qaterji network. It is more than one businessman or one family. It is a network of “guest houses” (*madafat*, where negotiations take place), of intermediaries, of traders and truck owners. Its business started with ISIS, mostly on oil, and continued with SDF.

It buys wheat directly from farmers, at a price situated between that of SDF (usually lower) and that of GoS. Finally, the wheat ends up in the large silos in Kisweh near Damascus.

This year, harvest in Tell Abyad is very good. Qaterji network bought it all. Last year, it was looted by FSA groups; but Qaterji bought it from them. Farmers are not very happy with SDF as they buy in SYP, seeds and fertilizers in U.S. dollars.

All trade and financial transactions of SDF pass through Erbil in Iraq.

Box 11. Interview with medium size shop keeper in Latakia (June 16, 2020)

All goods are available, but prices are very high, and the purchasing power of the population is very low. The main issue is the “royalties” paid for the transportation of goods and at checkpoints.

As an example, the cost of a production of tomatoes at farms in Baniyas is SYP50/kg. It is not much influenced by exchange rate. Wholesale price in Latakia is increased to SYP200 due to these “royalties.” Transported to another region, the price skyrockets to SYP500. However, the wholesale tycoons fix the price at SYP1,000. But no one will buy at this price. The other choice is to prepare it to be exported, mainly to Saudi Arabia, where tomatoes are sold at around SYP550, much cheaper than competition. But you have to pass through the 4th Division for that, as it controls the port. This is also the case for imports, on which depends trade and industry.

Most of the trade with the Gulf and Jordan passes through the Islamic banks, mainly Al Baraka and Al Ittihad, that are subsidiaries of Gulf banks and have corresponding banks there.

The smuggling with Lebanon is active. In particular, Hezbollah smuggles cars from Lebanon, but they are not legally registered.

The GoS still imports from China, Russia and Iran, mainly through Latakia port and Iraq.

Small businesses have cover companies in Lebanon through which they import. The bigger businessmen, especially those linked to Assad, also use Dubai, Kuwait, and Oman.

With the increase of Turkish exports to Syria through AOG areas of control, and as Bab Al-Hawa border crossing was – and remains – the most active, the city of Sarmada¹³⁹ significantly developed to become a hub for foreign trade, while *de facto* controlled by HTS.

“Sarmada is now a thriving provincial trade center, selling and distributing wholesale goods arriving from Turkey. This includes almost everything: food, like Turkish frozen chicken, generators, tank batteries (for electricity), electronics, and cars. Forged documents can be bought there. It is the first town in Syria on the road from the Bab Al Hawa crossing with Turkey. A participant explained that a queue of trucks as long as 4km could be seen on the Turkish side. Turkish trucks do not enter Syria; instead they wait for goods to be transferred into Syrian vehicles in a buffer zone. Large amounts of cement enter Syria from Turkey. Reconstruction is taking place in safer areas, facilitated by the absence of building regulations, and which the “nouveaux riche” are said to be utilizing as they pour their new wealth into real estate. Many of the goods end up in relatively secure Sarmada, where they are sold and distributed, but more offices and businesses are opening closer to Bab Al Hawa itself, for example offices for car sales. Large stores are being built for wholesale trade. European cars arrive from Turkey via Bab Al Hawa. A participant

139. Aita, 2017, A.

observed: ‘If someone has capital, they turn it into metal, buy cars or generators and sell them inside Syria.’”¹⁴⁰

Smuggling between Lebanon and Syria was known, in both directions, as both sides profited from price differentials between the two countries. This smuggling also significantly increased with the unilateral measures since the early period of the conflict.¹⁴¹ It provided Syria with all sorts of goods, difficult to import directly. It also provided Lebanon with basic agricultural products and cheap medicine that had helped to keep inflation low in Lebanon, despite the fact that refugees formed one-third of the population. With the current financial crisis in Lebanon, inflation was kept much lower than the significant deterioration of the LBP exchange rate, because of the formal and informal supply of base products from Syria,¹⁴² despite calls for the closing of smuggling roads between the two countries.¹⁴³

Similar smuggling activities developed between SDF-controlled areas and Iraqi Kurdistan and Turkey.¹⁴⁴

Around this international wholesale trade, a cross-frontlines wholesale trade developed, despite the fighting. It concerned all sorts of goods, including locally produced oil or agricultural products, as well as illegal and criminal products such as the drug Captagon.¹⁴⁵

All this generated a “parallel” trade network harming ordinary citizens, as cost of products became extremely high because of the transaction costs involved, changing the political economy of the trade sector to make it dependent on the warlords in all areas of control.

The unilateral measures led to the development of illegal trade networks in all controlled zones in Syria, fueling the conflict with the high added values they produced and harming the population, which was impoverished and unable to purchase products, even local ones that remained at high prices.

VII. The Impact on Private Banks, Exchange Rate, and Inflation

The banking sector in Syria includes public and private banks. The latter initiated their activities in 2004, while the former played a strong role in the organization of the economy and state interventions, especially for agriculture and construction.

140. Turkmani, 2015, p. 46.

141. <https://www.al-monitor.com/pulse/ar/security/2013/12/lebanon-smugglers-syria-war.html>

142. See for example <https://bit.ly/2C3FvPR>.

143. See per example <https://bit.ly/3f2kBiC>.

144. See for example <https://bit.ly/31M37mQ> and Sinan Hatahet: The political economy of the autonomous administration of North and East Syria; <https://bit.ly/3e4Y5US>.

145. See Aita, 2017 B and <https://bit.ly/3gw56Qq>.

Table 1. Private Banks in Syria

| Bank name | Code | Establish | Investors | Branches | Stock Market |
|--|------|-----------|-----------|----------|--------------|
| Banque BEMO Saudi Fransi | BBSF | 2004 | Lebanon | 37 | Yes |
| Bank of Syria and Overseas | BSO | 2004 | Lebanon | 29 | yes |
| Bank Audi Syria | BASY | 2005 | Lebanon | 19 | yes |
| Byblos Bank Syria | BBS | 2005 | Lebanon | 11 | yes |
| Fransabank Syria | FSBS | 2009 | Lebanon | 10 | yes |
| Al Sharq Bank | SHRQ | 2009 | Lebanon | 8 | No |
| International Bank for Trade & Finance | IBTF | 2004 | Jordan | 31 | yes |
| Arab Bank Syria | ARBS | 2006 | Jordan | 19 | yes |
| Bank of Jordan, Syria | BOJS | 2008 | Jordan | 14 | yes |
| Syria Gulf Bank | SGB | 2007 | Bahrain | 12 | No |
| Qatar National Bank Syria | QNBS | 2009 | Qatar | 15 | Yes |
| Cham Bank | CHB | 2007 | Kuwait | 12 | yes |
| Syria International Islamic Bank | SIIB | 2007 | Qatar | 24 | No |
| AlBaraka Bank | BBSY | 2010 | Bahrain | 11 | Yes |

A. Syrian Private Banks

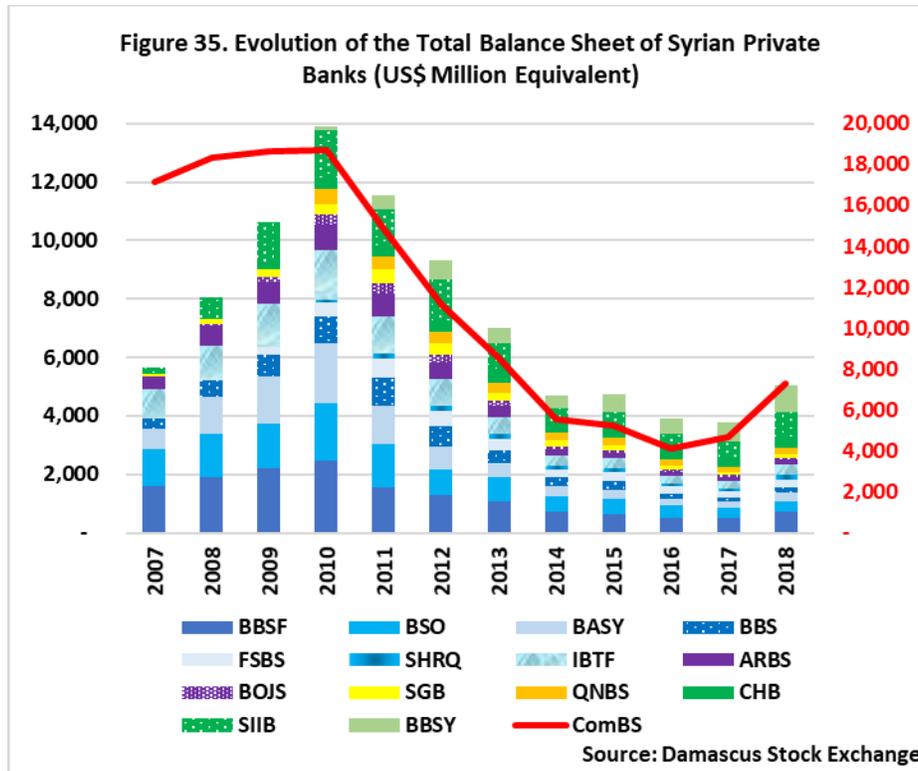
The first private banks entered the Syrian market in 2004 (Table 1). They were mostly Lebanese banks.¹⁴⁶ They were later followed by Jordanian banks, as well as Arab Gulf banks that introduced Islamic banking.

In less than six years, the private banks developed steadily around the country, totaling in 2010 around 180 branches (compared with 166 branches¹⁴⁷ for the long-established public banks) and around US\$14 billion equivalent total balance sheet, a figure that doubled in only five years (Figure 35).¹⁴⁸

146. Many of the major shareholders and senior managers of these Lebanese banks were from Syria. They have a strong customer base in Syria.

147. Excluding the 106 branches of the Agricultural Cooperative Bank, which is in fact an agricultural promotion agency, and the 13 branches of the Saving Bank, which is linked to the post offices.

148. Figure 34 shows the comparison with the evolution of the total balance sheet of the Commercial Bank of Syria (ComBS).



They mostly competed with the Commercial Bank of Syria (ComBS), the largest commercial bank in the country acting for internal and foreign trade, whose growth was already hindered by a U.S. unilateral measure of 2004¹⁴⁹ under the Patriot Act (not then followed by Europe) that resulted in gradually blocking transfers from and to ComBS through the Swift international interbank transfer system.

In October 2011, new unilateral measures were introduced against ComBS based on U.S. Executive Orders 13382¹⁵⁰ of 2005 (proliferation of WMDs) and 13572¹⁵¹ of April 2011 (human rights abuses). The U.S. assets of the ComBS were frozen earlier, in August 2011.¹⁵² The EU followed with similar restrictive measures on ComBS, enforced to “prohibit to establish a new correspondent banking relationship with any Syrian credit or financial institution.”¹⁵³ ComBS was severely impacted by these new unilateral measures, as by measures concerning Sytrol (the public Syrian oil trading company, responsible for oil and fuel derivatives exports and imports). ComBS was the only public bank responsible for public foreign trade.

Private banks were also deeply impacted, as most of the U.S. and EU corresponding banks started to close their accounts with Syrian banks, public and private. In fact, the impact of these unilateral measures on the banking sector was far beyond the letter of their regulations, as they

149. These unilateral measures designated ComBS as a financial institution of “primary money laundering concern,” with accusations on proceeds of selling Iraqi oil prior to U.S. invasion and financing Al Qaeda. However, according to ComBS managers, the measures were introduced following the Israeli siege of the Palestinian headquarters in Ramallah and the expulsion of Yasser Arafat. The Israeli forces seized Ramallah banks’ accounts and discovered transfers from ComBS to the Palestinian authority. This led U.S. President George W. Bush in 2004 to require that U.S. financial institutions sever correspondent bank accounts with ComBS, under Section 311 of USA Patriot Act; see <https://www.treasury.gov/press-center/press-releases/Pages/js1538.aspx>.

150. <https://www.treasury.gov/resource-center/sanctions/Documents/whwmdeo.pdf>

151. <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13572.pdf>

152. <https://www.ft.com/content/a2ce0c1e-f5b9-11e0-bcc2-00144feab49a>

153. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0036&from=EN>

introduced, even for allowed imports or exports, costs and risks for the partner banks and companies. Many of the latter stopped all relations with Syria in a de-risking overcompliance practice, as OFAC procedures were complex and uncertain, or as a result of pressures.¹⁵⁴

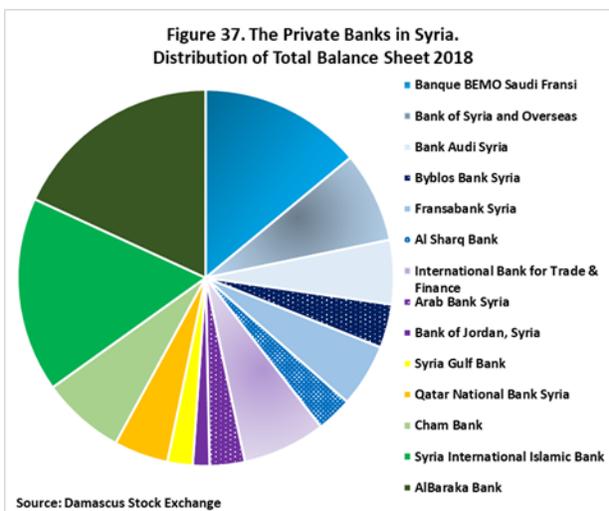
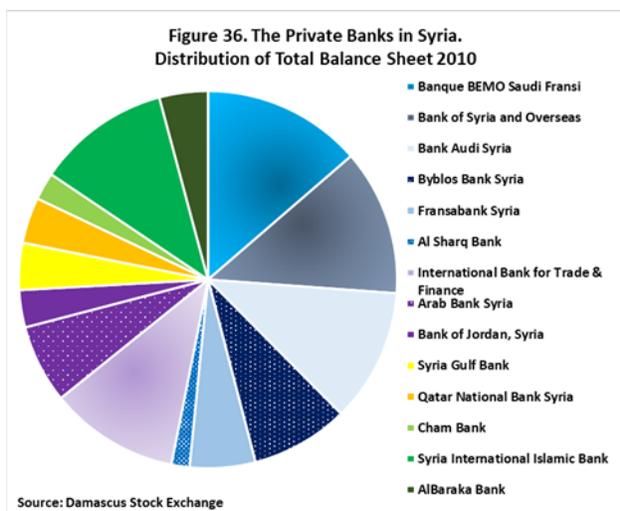
The unilateral measures, the conflict, as well as the depreciation of the Syrian currency, had all led the total balance sheet of the Syrian private banks to decrease significantly, until reaching one-third of its 2010 U.S. dollar value, in 2017. The Commercial Bank of Syria dropped more severely, to a quarter of its value. Only a small recovery was observed in 2018 (Figure 35).¹⁵⁵

As a result, the high growth of private Syrian banks was stopped. In addition, the Lebanese and Jordanian banks lost their significant share in private banking to Gulf banks (Figures 36 and 37), including a subsidiary of Qatar National Bank, while Qatar was strongly supporting regime change in the country.

Moreover, the share of Islamic banks from the Gulf countries increased significantly at the expense of traditional banks. Thus, even though the Islamic banks entered late into Syrian operation (Al Baraka bank initiated its activities only in 2010, one year before the uprising and the unilateral measures), their share increased from 18% in 2011 to 42% in 2018. If other Gulf traditional banks are taken into account, the Gulf banks obtained the majority of total bank balance sheets in 2018 (Figure 37), while the Lebanese and Jordanian banks used to dominate three-quarters of the private banking market in 2010 (Figure 36).

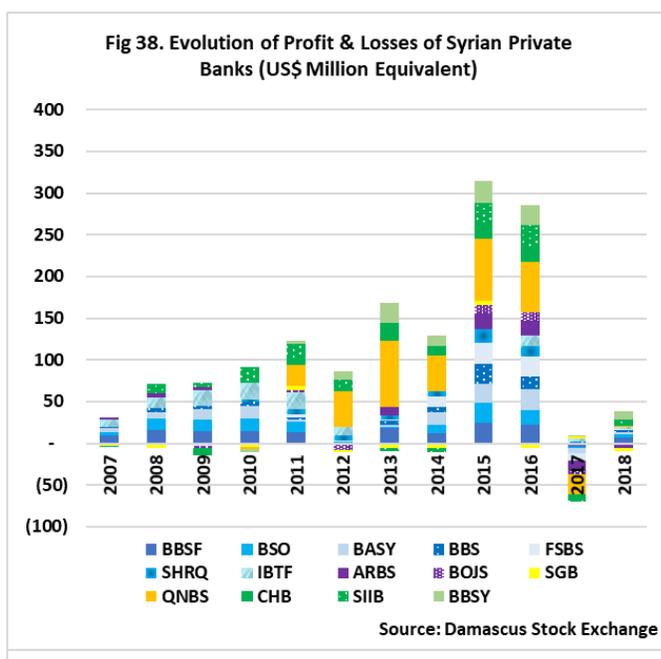
154. Managers of Lebanese and European banks reported U.S. pressure to end relations with Syria. Such pressure was exerted since 2003 for transactions with ComBS.

155. Figures extracted from published accounts of the banks.



One of the Islamic banks, the Syria International Islamic Bank (SIIB), was sanctioned by the EU for a period in 2012 as it had allegedly “contributed to providing financial support to the Syrian regime,” having acted “as a front for the Commercial Bank of Syria, which has allowed that bank to circumvent sanctions imposed on it by the EU. From 2011 to 2012, SIIB surreptitiously facilitated financing worth almost \$150 million on behalf of the Commercial Bank of Syria.”¹⁵⁶ The European court canceled the sanction¹⁵⁷ and ordered the EU to pay a 15 million euro penalty to the bank.¹⁵⁸ Ehab Makhoul, the brother of Rami Makhoul, was a member of SIIB’s board until he was sanctioned in May 2011.¹⁵⁹ SIIB was also listed by OFAC in April 2012.¹⁶⁰ The purpose of this U.S. listing is unclear. Samer Foz, assumed to have become a major shareholder of SIIB, was listed in 2019, but not the bank itself.¹⁶¹ In 2018, the SIIB was the second-largest private bank in Syria, with 17% of the total balance sheet.

Foz was also assumed to have major stake in AlBaraka bank, whose other shareholders are the Saudi Arabia-based AlBaraka Islamic banking group and the UAE-based Emirates Islamic Bank. Al Baraka bank is the fastest-growing private bank in Syria,¹⁶² with 18% of the total balance sheet in 2018. However, the bank was not included in sanctions lists by the U.S. and the EU. AlBaraka bank is assumed to account



156. <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2012:165:0020:0022:EN:PDF>

157. https://ec.europa.eu/commission/presscorner/detail/en/CJE_14_81

158. https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=uriserv%3A0J.C_.2012.258.01.0026.01.ENG

159. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0363&from=FR>

160. <https://www.treasury.gov/press-center/press-releases/Pages/tg1596.aspx>

161. <https://home.treasury.gov/news/press-releases/sm704>

162. <https://bit.ly/3e0CcGc>.

“for a significant proportion of funds held and processed on behalf of major national and international aid organizations in Syria, making the bank an indispensable part of the Damascus-based humanitarian and development response.”¹⁶³

According to managers of major Syrian private banks,¹⁶⁴ the prevalence of the Arab Gulf and Islamic private banks resulted from the fact that they had corresponding banks for international transactions, while they continued to have direct relations with GoS institutions.

The prevalence of the Gulf traditional and Islamic banks can also be observed in the evolution of the net profits/losses of private banks (Figure 38). The worst years of the conflict (2013-2016) significantly affected the growth of private bank profits. The losses, however, were compensated for in many cases by gains in exchange rate valuation of foreign currency deposits and position. The Qatari QNBS and the Islamic banks reported much better profitability during the conflict years than the traditional Lebanese and Jordanian banks, mostly because of their high foreign currency capitalization (book profits from exchange rate position). Following the banking crisis in Lebanon and as a precautionary measure against the Caesar Act, many of the Lebanese banks zeroed their capital holdings in their Syrian subsidiaries and announced the end of their operations in Syria.

Thus, the unilateral measures led to a reduced role for the public Commercial Bank of Syria, and to a decline of growth for private banks and to the prevalence of Gulf traditional and Islamic banks in the Syrian banking market. These Gulf banks were only able to maintain some relations with corresponding banks for foreign trade operations, to deal with public foreign procurement, as well with INGOs.

B. The Hawala and Informal Transfers

Syrian businesses and individuals have used *hawala* transfers¹⁶⁵ for foreign payments since the 1960s, as a result of informal practices for tax evasion, discrepancies between official and free (black market) exchange rates and to circumvent GoS-imposed stringent capital control. The financial crisis of 1986 largely contributed to the expansion of such transfers. However, this changed in the 2000s with the opening of private banks and the issuing of Law No. 24 of 2006 regulating foreign exchange dealers.¹⁶⁶ The change benefited from the significant foreign currency reserves of the Central Bank and the Commercial Bank of Syria, and from the long-standing proximity between official and free currency exchange rates. Around 2010, a significant share of the financial transactions moved to the formal networks, exchange dealers or Syrian banks.

The *hawala* system was mostly used for the remittances of Syrian expatriates to their families. The expatriates were mostly in the Gulf countries, as well as in the Americas and Europe.¹⁶⁷ In the late 2000s, these remittances were estimated to amount to around US\$2 billion annually. The *hawala* system was also used by importers and exporters to partially pay or receive foreign payments through Lebanese or Gulf banks, in order to avoid heavy taxation in Syria.

The formal *hawala* market was directly impacted by the unilateral measures on the Central Bank of Syria (CBS), as well as on the Commercial Bank of Syria, the largest bank in the country

163. According the UK and Cyprus based COAR, see <https://bit.ly/2Ax1Rsz>

164. Interviews with several major managers of Syrian private banks.

165. And other Informal Value Transfer Systems (IVTS).

166. <http://www.parliament.gov.sy/arabic/index.php?node=201&nid=5035&ref=tree&>

167. 29% from Saudi Arabia, 17% from Lebanon, 16% from Jordan (mainly from Syrian workers in these countries), 14% from Turkey, 5% from Kuwait, etc. according to the World Bank, See Roger Dean: Remittances to Syria; Norwegian Refugee Council, July 2015, <https://bit.ly/2AwZHJj> based on Beechwood, 2015.

with the largest number of branches and customers. The informal market reactivated as early as 2011, especially for business transactions of listed personalities, as well as for transfers to different actors—ordinary businesses, middle class or uprising activists—as economic activities declined and passed to the informal sector. This informal financial market developed significantly, as parts of the country were no longer reachable by official institutions and banks, and considerable funds were transferred to AOGs, especially from the Gulf countries as well as for relief operations. This expansion was also due to the growing list of sanctioned institutions and personalities active in the Syrian economy. Informal *hawala* transfers became largely dominant in 2014 with the emergence of ISIS control of large areas of the country. The *hawala* system even became an essential tool for UN agencies and INGOs,¹⁶⁸ which used to transfer their relief funds to Lebanese banks, then to Lebanese foreign exchange dealers, then through *hawala* to Syrian foreign exchange dealers before depositing them in private Syrian banks.¹⁶⁹

It is in this context that OFAC “generally authorizes, subject to certain limitations, noncommercial personal remittances to or from Syria. OFAC also authorizes U.S. depository institutions, including banks and U.S.-registered money transmitters, to process noncommercial, personal remittances to or from Syria, or for or on behalf of an individual ordinarily resident in Syria, provided the fund transfer is not by, to, or through the government of Syria or any person designated or otherwise blocked by OFAC.”¹⁷⁰

However, in an attempt to prevent the financing of terrorist activities, OFAC listed in 2019 several *hawala* money transfer companies, including Al-Haram foreign exchange,¹⁷¹ widely used in Syria and linked to AlBaraka bank.

In addition to OFAC considerations, *hawala* became dominant as transaction costs were lower than those of official banks (including correspondent), and especially because it could transact using free market exchange rates instead of the formal banking system’s official exchange rate.¹⁷² Even in neighboring countries where large numbers of Syrians had taken refuge, “Investors... consider *hawala* a means of facilitating their businesses and industries in light of the restrictions and sanctions imposed on Syria, as well as an instrument for tax evasion.”¹⁷³

The unilateral measures of 2011 resulted in moving most of the foreign financial transactions out of the formal Syrian banking system toward the informal hawala and similar informal money transfer means. This also applies for UN and INGO operations.

168. Beechwood, 2015, p. 25 showed that around one-third of the INGO transfers were staff salaries, around two-thirds for contractors and their suppliers and a small share in cash for beneficiaries.

169. Interview with UN agencies and INGO financials.

170. <https://bit.ly/2ZDrAYS>.

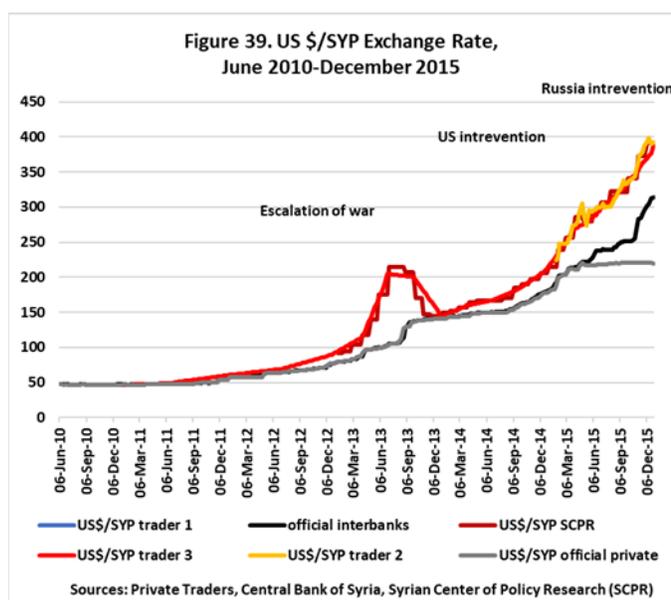
171. <https://bit.ly/38sgTw2>.

172. Jssem (Al) & Obaid, 2019, p. 44.

173. Ibid.

C. Exchange Rate and Dealings

Despite preconflict unilateral measures, especially on the Commercial Bank of Syria, the Central Bank's U.S. dollar exchange rate (official rate) remained stable (around SYP45/US\$1). The same was also the case for the free market (formal and informal traders) within a margin of plus or minus 5%. The introduction of the unilateral measures of 2011 led to a slow depreciation of the SYP in the free market, and the official rate abandoning pegging and following this depreciation (Figure 39). However, unilateral measures compliance and de-risking overcompliance practices started to transfer most of the foreign currency dealings from Syrian banks to exchange dealers, and through them to exchange dealers and banks in neighboring countries, thus from formality to informality.



The free exchange rate reached SYP70/US\$1 in July 2012, when the uprising transformed into an armed conflict and when UN Special Envoy Kofi Annan's peace plan failed.¹⁷⁴ The depreciation accelerated further with AOGs taking control of large parts of the Syrian territory. In April 2013, the free exchange rate reached SYP115/US\$1, while the official rate remained at SYP91/US\$1. The emergence of ISIS in Syria accelerated the depreciation to a peak of SYP215/US\$1 in July 2013, while the official rate maintained a lower depreciation path at SYP105/US\$1. In daily trading, peaks of SYP310/US\$ were experienced, forcing the Central Bank to intervene, selling foreign currencies for imports (see Figure 7).

In the following months, the SYP gained value following the U.S. abandonment of direct military intervention and the GoS armed forces' making advances, especially toward Aleppo. The free exchange rate reached SYP140/US\$1 in December 2013, close to the official rate (Figure 39).

However, the depreciation accelerated again with ISIS taking control of large parts of the Syrian territory including Deir Ez Zor, where the oil fields are located, and Palmyra, where the gas fields are. Also, the U.S. started exerting pressure on the Arab Gulf (mainly Qatar and Kuwait) countries' financing of AOGs and extremist groups. This was the case until the free exchange rate reached SYP390/US\$1 in December 2015 (Figure 40). The Central Bank stopped following the free exchange rate for ordinary transactions and fixed its official rate around SYP220/US\$1 in March 2015.

174. The GoS deliberately depreciated the official exchange rate along with that of the free market, aiming at preserving foreign currency reserves and reducing the real value of internal debt.

The U.S. intervention against ISIS started in September 2014, and Russia intervened to assist the GoS forces in September 2015. The resulting fierce fighting and massive population displacements, including those to Europe, resulted in a rapid depreciation of the SYP (Figure 39). The U.S. dollar exchange rate peaked at SYP645 in May 2016, even after the U.S.-Russian brokered “cessation of hostilities” endorsed by UN Security Council Resolution 2268.

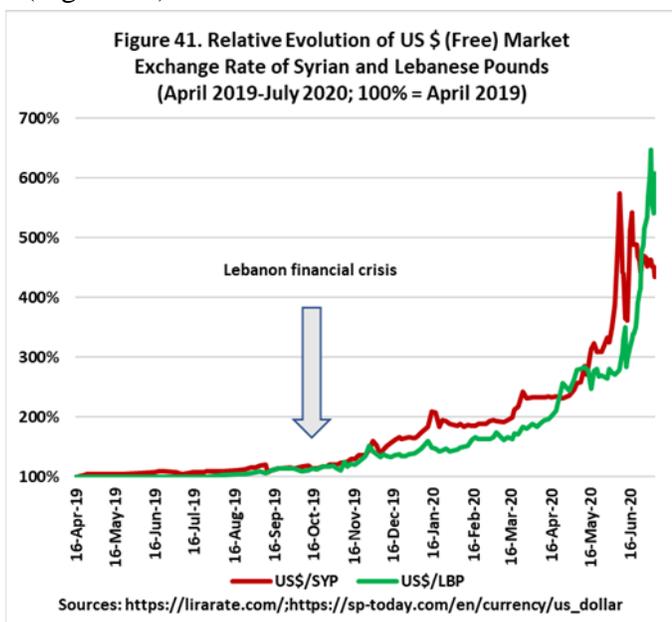
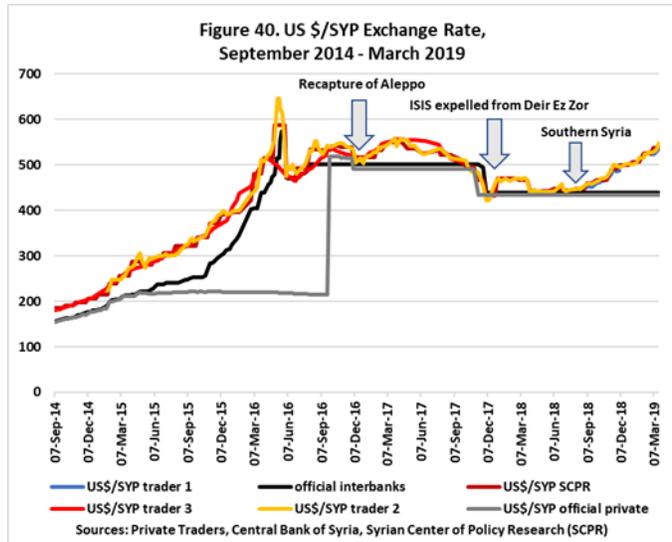
But, a climate of confidence returned somehow, resulting in a relative stabilization of the SYP. The U.S. dollar exchange rate oscillated between SYP450 and SYP540 from early 2016 to mid-2019 despite the continuous fighting, and the military offensives by the GoS, Turkey and SDF, which resulted in the control of the oil fields by the SDF and U.S. forces.

In late 2017 and early 2018, the SYP appreciated to 460/US\$1.¹⁷⁵ The U.S. stopped arming and equipping the AOGs in July 2017. Turkey launched its “olive branch” operation on Afrin area in January-March 2018. In April-August 2018, the siege of Damascus suburbs ended and the southern front offensive led to reopening the Syrian- Jordanian border. This all led to the termination of foreign (mostly European and U.S.) financing to these areas, which started a new trend of devaluation of the SYP (Figure 40).

The three-year relative stability of the SYP exchange rate is striking, even at a much-depreciated level compared to the pre-conflict period. This was broken only with the tensions related to the financial crisis in Lebanon in October 2019.

For the first time in decades, the pegging of the Lebanese pound to the U.S. dollar (LBP1515/US\$1) ended and a parallel free (black) market, with a depreciated value of the LBP, emerged in Lebanon. In October 2019 Lebanese banks blocked deposits and the Central Bank of Lebanon (BDL) imposed capital controls on foreign transfers.¹⁷⁶

This crisis had severe implications for both the Lebanese and Syrian



175. It is worth noting that the governor of the Central Bank, Dureid Dergham, was dismissed in December 2018 after two years in the position, while this stabilization of the SYP could be partly due to his record; see “Assad Dismisses Central Bank Governor,” the Syria Report, Sept. 25, 2018. This stability challenged earlier reports on quick depreciation; see “Stability of Syrian Pound Challenged by Poor Economic Fundamentals,” the Syria Report, Sept. 19, 2017.

176. In fact, it was the banks that imposed the capital control, without legal backing.

economies. The LBP and the SYP devaluated in parallel and unprecedented paths, with hard currencies in both markets disappearing (Figure 41). The devaluation reached uncontrollable levels in April 2020 with pressure exerted by the U.S. on both Syria and Lebanon through the Caesar Act.

The unilateral measures left the Syrian economy dependent on informal financial transactions, mainly through neighboring countries (particularly Lebanon and Turkey), with little means available for the Central Bank of Syria to intervene in the exchange rate.

Consequently, the Lebanese financial crisis severely impacted the Syrian economy. The assets of the Syrian middle class and businesses, including most SMEs, were blocked (and probably lost) in the Lebanese financial crisis. Moreover, threats of the Caesar Act on both Syria and Lebanon led to a further depreciation of the Syrian pound to unprecedented levels, blocking the Syrian economy, with dramatic expected consequences.

Box 12. Interview with a Syrian businessman in Turkey (June 2020)

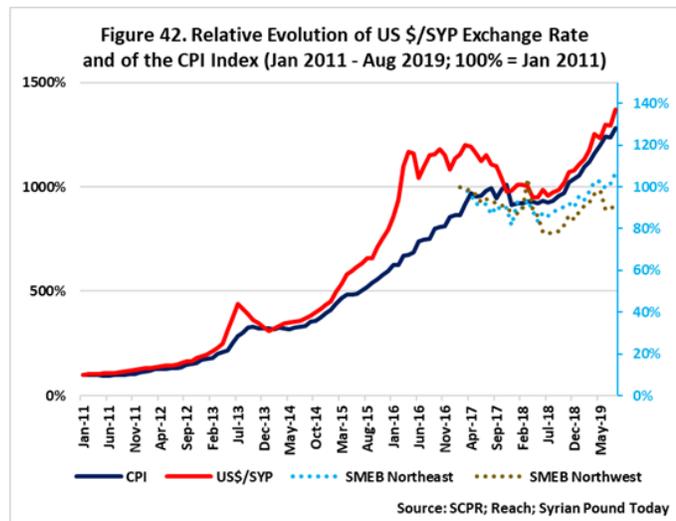
The Lebanese crisis is a major reason for the rapid depreciation of the SYP. If only Beirut airport opens, it could ease. To get a U.S. dollar today in Beirut, you have to pay \$1.2 or even \$1.4 in Turkey. There is little difference if you want to get it in Damascus. Demand for U.S. dollars never reached current levels in history, in both countries.

We continued to ship products to Syria until 2013. Then we lost most of the corresponding bank relations. However, international companies have stopped dealing with Syria since 2011 whatever the product, practicing overcompliance. We shipped then to Jabal Ali in Dubai, then through small cargo ships to Port Said in Egypt, and then to Beirut and Damascus.

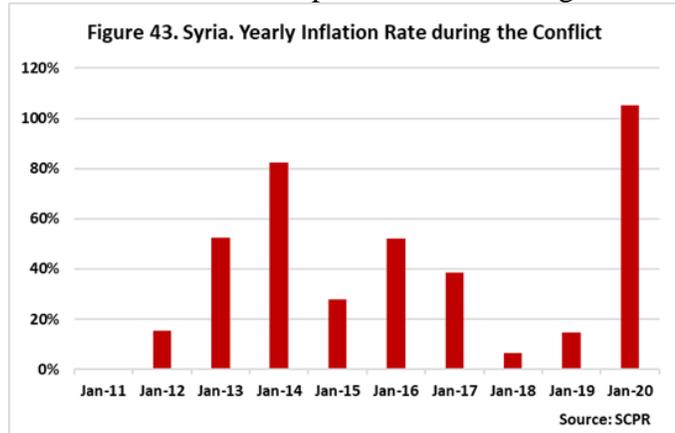
The remittances of Syrians abroad had also slowed and are almost exclusively transferred through the black market. Like in Lebanon, remittances lose half of their value when converted, sometimes more, as the official exchange rate can't follow the market prices.

D. Prices and Inflation

Despite significant reduction in demand, the conflict and the unilateral measures combined led the Syrian economy to inflation, following the war disruption and damage to the economy, as well as a major increase in “transaction costs.” However, the evolution of inflation was gradual until October 2019, mostly along the evolution of the SYP depreciation (Figure 42), which indicates the high degree of the economy’s dollarization.



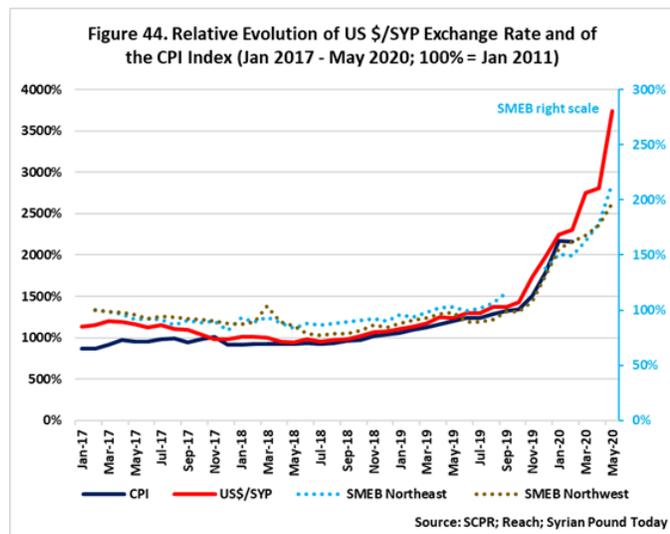
However, inflation pressures had some inertia compared with the rapidly fluctuating exchange rate, probably because of delayed effects of the SYP depreciation on the agricultural sector. In particular, the consumer price index (CPI) did not fully follow the exchange rate's rapid depreciation of the August 2013 and January 2015-May 2016 periods.¹⁷⁷ The year 2013 marked the highest yearly inflation rate at 80% (Figure 43), before 2020 following the Lebanese crisis.



With the stabilization of the exchange rate in May 2016 and even the appreciation of the value of the SYP in July 2017, inflation was reduced significantly.

It was only 6% in the year 2017 and probably less in non-GoS areas of control.¹⁷⁸ But consumer prices had already reached nine times their levels of 2011, while revenues were far from able to cope with inflation. In 2011, 35% of salaried workers earned more than US\$250 monthly. Only 8% were above US\$140 monthly in 2017.¹⁷⁹

The depreciation of the SYP exchange rate started again in August 2018, as well as the inflationary pressures. However, inflation remained mild at 15% for 2018. In October 2019, both the depreciation of the SYP and the inflation accelerated significantly. Between September 2019 and May 2020, the U.S. dollar value of the SYP increased 3.8 fold, and the price of the “Survival Minimum Expenditure Basket” (SMEB)¹⁸⁰ of UN agencies and INGOs increased 2.5 fold (Figure 44).¹⁸¹ Despite stable prices in the first nine months, the 2019 yearly inflation jumped to 105%.



The very rapid changes of the Lebanese crisis and Caesar Act blocked economic activities. The major issue for commercial actors, dealing with both local and imported products, was pricing.

Conditions for the population deteriorated dramatically to unprecedented levels,¹⁸² with risk of

177. The CPI follows SCPR calculation, on the basis of the CBStat index, valued 100% in January 2011. The figure shows also the relative values of Reach's "Survival Minimum Expenditure Basket (SMEB)" in Northeast and Northwest Syria for the period of February 2017 to May 2019 (see for example <https://reliefweb.int/report/syrian-arab-republic/northeast-syria-market-monitoring-exercise-cash-based-responses-4>).

178. See the evolution of the SMEB in the Northeast and Northwest areas.

179. CBStat Statistical abstracts.

180. The SMEB is collected by Reach on the basis of data collected by active NGOs on the ground; see <https://www.reach-initiative.org/where-we-work/syria/>.

181. SMEB values right scale.

182. "Overall poverty rates reached as high as 93.7% at the end of 2017, while abject poverty levels reached 59.1% in the same year," according to SCPR, <https://www.scpr-syria.org/launch-of-food-security-conflict-in-syria-report/> and <https://www.scpr-syria.org/multidimensional-poverty-in-syria-2001-2009/>.

famine.¹⁸³ The average civil servant's monthly salary in Syria was at US\$38 in early 2020, compared to \$450 in Lebanon, \$590 in Iraq and \$223 in Egypt.¹⁸⁴ The average income in Syria was hardly enough for minimal survival.

The unilateral measures and the financing of the conflict led to the dollarization of the economy. The Syrian pound experienced several cycles of significant depreciation. Inflation followed depreciation with some delays. The inflation caused severe deprivation among a large segment of the population. However, with the current Lebanese crisis and pressures caused by the Caesar Act, inflation has transformed into hyperinflation with far more dramatic consequences for the population.

VIII. The Impact of the Role of Neighboring Countries

A. Turkey

As mentioned in Section III, the unilateral measures resulted in a significant increase in the role of Turkey in Syria's imports, especially to the GoS-controlled areas. And this role did not decrease following the GoS customs services' crackdown on illegal imports (see Figure 5 above). This role was a byproduct of the difficulties experienced by direct importers, in turn a consequence of unilateral measures.

Turkey's role in Syrian exports was extremely limited due to Turkish restrictions, even for products generated in Syrian territories under its direct and indirect control. However, informal exports to Turkey were significant in the form of industrial equipment looted in Aleppo,¹⁸⁵ grain and cotton looted in silos by AOGs or ISIS,¹⁸⁶ crude oil smuggled,¹⁸⁷ as well as antiquities.¹⁸⁸

Turkey also played a significant role in Syria's financial transactions. Most of the finances to AOG combatants were channeled through Turkey, as well as finances for Syrian NGOs and INGOs operating in Syria, and remittances to non-GoS-controlled areas. Turkey hosts more than 3 million Syrian refugees and *de facto* controls large areas of northern Syria, also having a strong influence in Iraqi Kurdistan, which is the main access route to SDF areas.

The financial flows from Turkey, mostly in U.S. dollars, helped stabilize the SYP and the Syrian economy, as these were mostly used in non-GoS areas of control to purchase basic Syrian food products, cheaper than Turkish products. Numerous Syrian exchange traders established offices in the Turkish border cities, transacting significant amounts.¹⁸⁹

Several attempts were made to replace the SYP with the Turkish lira (TRY), for example during AOG control of large parts of Aleppo in 2015-2016 and more recently in 2019-2020 following the collapse of the SYP.¹⁹⁰ The earlier attempts failed as most of the economic

183. See Washington Post article <https://wapo.st/2O0qTU0>.

184. <https://bit.ly/2C4YIWF>.

185. See <https://www.hurriyetdailynews.com/turkey-looted-syria-factory-damascus-38824> and <https://www.al-monitor.com/pulse/originals/2015/08/turkey-syria-sued-for-looting-aleppo-industry.html>

186. <https://www.syriahr.com/en/152601/>

187. <https://abcnews.go.com/International/story?id=24814359>, <https://www.ft.com/content/b8234932-719b-11e5-ad6d-f4ed76f0900a#axzz3rhwAkkfP>, <https://ig.ft.com/sites/2015/isis-oil/> and <https://tass.com/politics/845182>.

188. https://rewardsforjustice.net/english/trafficking_oil_and_antiquities.html

189. Some exaggerated estimates give US\$6 million to \$10 million daily (see <https://bit.ly/3dNPp5f>), i.e. US\$2.2 billion to \$3.6 billion yearly.

190. <https://bit.ly/3eOTI7b>.

exchanges between AOG- or SDF-controlled areas were still with GoS-controlled areas, and the civil servants are still paid in SYP, even in the areas out of GoS control.

However, the combination of the Caesar Act's unilateral measure and the Lebanese economic crisis, and the resulting rapid depreciation of the SYP, blocking the economy, could lead to the *de facto* separation of the economies of the different areas of control. The injection by the Turkish authorities of small bank notes and coins to AOG and SDF control areas could accelerate such an outcome.

B. Jordan

Unlike Turkey, Jordan did not cut its diplomatic and trade relations with Syria. Jordan hosts more than 650,000 Syrian refugees and residents, representing a significant share of its population. The trade relations between the two countries, however, stopped during AOG control of the border crossing. More importantly, the road transit of Lebanese and Turkish goods to the Arab Gulf countries through Syria also stopped. This used to generate significant revenues for both Syria and Jordan.

Jordan stopped exporting gas or electricity to Syria—and through Syria to Lebanon—using the Arab networks originating from Egypt. Surely, both Egypt and Jordan did not seem to have a real excess of gas or electricity capacity during the Syrian conflict.

The Naseeb border crossing between Jordan and Syria reopened in October 2018.¹⁹¹ However, trade activity always was and remains limited. Jordan banned the import of 194 products from Syria,¹⁹² particularly agricultural products, because of price competition more than compliance with the unilateral measures.

Jordan also played a role in channeling finances to AOG groups and to Syrian NGOs and INGOs in southern Syria but had no role in the transmission of remittances and the financing of Syria's foreign trade.

C. Iraq

Iraq maintained diplomatic relations with Syria. However, the main border crossing between the two countries in Abu-Kamal/Al-Ka'im was under ISIS control for almost six years. It reopened only in September 2019, with slow activities officially attributed to procedural reasons,¹⁹³ but also due to the insecurity in the area and U.S. pressure.¹⁹⁴ Iranian and Iranian-backed Iraqi militias are present at this border crossing, and the crossing is often subject to U.S. or Israeli airstrikes.

Trade activities continued at a significant level at the northernmost border crossing of Simalka (Fish Khabour), which was opened in 2013 following an agreement between the Iraqi Kurdistan region and the Self Government of the SDF, even though it is not fully recognized by the official authorities of both countries. Under the protection of U.S. forces and serving as the main transport for U.S. military equipment, this border crossing does not comply with the procedures of the unilateral measures.¹⁹⁵ Occasionally, this crossing point is replaced by that of Sweidyieh/Al-Walid located more to the south and controlled by the Iraqi government and U.S. forces.

191. It closed in April 2015 after it was taken over by AOG and Al Nusra combatants.

192. <https://bit.ly/3dOENTy>.

193. <https://bit.ly/3dOGH6E>.

194. <https://bit.ly/2YM41xD>.

195. <https://bit.ly/3ik5ZNz>.

The Ya'roubiya/Rabi'a (Tell Kojar) crossing is farther south and is on the main M4 highway, which was for the transit from Turkey to Iraq. Since 2013, this border crossing was under different controlling parties on the Syrian and Iraqi sides. It remains closed and might only open for exceptional humanitarian reasons.

Al Tanf/Al Walid¹⁹⁶ crossing is again farther south, near the junction of the Iraqi-Syrian-Jordanian borders. Despite its location in the desert, this border crossing is the main direct route between Baghdad and Damascus. It hosts a U.S. base which forbids any movement—and thus trade—in its proximity.

So, most of the trade between Syria and Iraq is made through the SDF-controlled region. It concerns agricultural products and light manufacturing from all areas in Syria. There are oil exports as well.¹⁹⁷ The status of the pipeline between the fields of Rmeilan, where a U.S. base is located, and the refinery of Alyuka in Iraqi Kurdistan is unclear.¹⁹⁸

D. Lebanon

Syria and Lebanon have always had intricate economic relations. Syrian financial assets fled to Lebanon after the nationalizations of the 1960s, as well as bankers and businessmen. At all times, Lebanon was a major smuggling route for products that the Syrian authorities restricted or subjected to heavy customs duties. The same applied for equipment banned by unilateral measures.

This smuggling used to work both ways. Syrian subsidized products, such as oil derivatives and pharmaceuticals, used to be smuggled into Lebanon in large quantities. The formal and informal trade between the two countries would react swiftly to price differentials. Nothing, not even the Syrian army and security services, had ever succeeded in stopping this smuggling.

The price differential applied to labor, as Lebanon experienced significant circular¹⁹⁹ migration of Syrian workers, active in agriculture, industry and construction. Thus, in the early 2000s, Syrian labor used to constitute around a quarter to a third of the Lebanese workforce. This had constituted a significant source of remittances in foreign currencies to Syria.

Inversely, Syrian businesses and middle-class families used to deposit their financial assets in Lebanese banks²⁰⁰ in order to avoid the heavy income taxes in Syria. The Lebanese banks were also used for foreign transactions out of sight of the Syrian government. The Syrian deposits in Lebanon increased significantly after the 1990s with the high interest rates provided by Lebanon's banking system on both the LBP and U.S. dollar.

The 2011 unilateral measures accelerated these tendencies. The products that were difficult to import to Syria were brought through Lebanese partners, making their way, formally or informally, to Syria. Syrian agricultural products also made their reverse way to Lebanon, sustaining the economy of the country which had received 1.5 million Syrian refugees and residents, a third of its total population, and providing resources in hard currencies. Also, many Syrians sold their assets (real estate or other) because of the conflict and transferred their revenues to the Lebanese banks. The Syrian economy became increasingly interlinked with that of Lebanon.

When the financial crisis erupted in Lebanon in October 2019, the Syrian assets in the Lebanese banks were blocked along with those of the Lebanese population. The Syrian assets are

196. This is another city called Al-Walid situated in Iraq.

197. <https://www.kurdistan24.net/en/news/0b078a0a-836e-4564-aaaf-c0d30add8307>

198. <https://bit.ly/2ZDQkJH>

199. The circular migration involves workers during weekdays in Lebanon, returning every weekend to their families and homes in Syria.

200. Many of the Lebanese bank owners are from Syria.

estimated between US\$30 billion and US\$40 billion, out of the US\$180 billion in total deposits in Lebanon.²⁰¹ Those assets were essential for the continued operation of the Syrian economy after nine years of conflict. Also, as foreign currencies diminished in Lebanon, imports were limited to only basic products, which also hindered imports to Syria through Lebanon.

The Lebanese crisis is expected to be long, in order to absorb the huge losses in Lebanese public finances. Its effects on both Syria and Lebanon will be extremely severe. The COVID-19 crisis and the Caesar Act add more layers of misery to already severe conditions.

The unilateral measures led Syria to be extremely dependent on neighboring countries: Turkey, Jordan, Iraq, and Lebanon. The Lebanese crisis that emerged in October 2019 will have dramatic consequences on the Syrian economy and livelihood of the population.

IX. The Unilateral Measures and the COVID-19 Crisis

A. Syria and COVID-19

The COVID-19 crisis developed in the wake of the Lebanese crisis and its ramifications. Lebanon declared its first case on Feb. 21, in a person traveling from Iran. Iraqi Kurdistan closed its border crossing with SDF areas in Syria on March 2 and the Syrian Observatory for Human Rights (SOHR) reported cases in Syria on March 10. Confinement measures were ordered by the GoS and SDF on March 13. (Schools and universities closed, as well as mosques and churches, etc.) The first official case in Syria was only reported on March 22. On July 1, only 293 cases (mostly in rural Damascus) and nine deaths were reported. Syria imposed quarantine on people arriving from outside the country in April. The spread of the pandemic remained initially limited despite the difficult conditions, especially for the displaced people present in all areas of control.²⁰²

GoS introduced different policies to cope with the COVID-19 confinement. A 6 p.m. to 6 a.m. curfew was introduced on March 25 all over the country, and a regulation postponing payment of debt installments to banks by three months was instituted.

As in other countries around the world, COVID-19 confinement measures severely affected the economy of Syria, which slowed down even more, and the livelihood of the population suffered, especially since most employment is informal. Confinement also disrupted the dynamics of the most active trade season, that of Ramadan.

According to an NGO survey conducted in May 2020 in all areas of control, “Meeting basic needs has become more difficult since the start of the pandemic, due to increased prices, job and income losses, and inability to access shops. People worry about going into or exacerbating debt, being unable to buy basic items, and having to sell or spend assets and savings to survive” and that “while most are attempting to abide by COVID-19 guidelines, many find it difficult to remain indoors and adhere to social distancing measures when they need to leave the house to work and meet household needs.”²⁰³

The COVID-19 pandemic spread more rapidly during the summer of 2020 in all areas of Syria. The situation is a catastrophe in terms of testing, protection, and hospital capacities.²⁰⁴

201. <https://syrianobserver.com/EN/features/53840/syrian-assets-in-lebanon-in-danger.html>

202. <https://www.france24.com/en/20200423-covid-19-if-there-was-a-severe-outbreak-in-syria-there-would-be-a-bloodbath>

203. <https://reliefweb.int/report/syrian-arab-republic/covid-19-insight-syria-june-2020>

204. <https://bit.ly/2ZKTOSm> and <https://bit.ly/3mv9kLY>

B. The Unilateral Measures and COVID-19

The COVID-19 crisis did not help ease the unilateral measures or the attitude of the internal and foreign players in the Syrian conflict.²⁰⁵

On April 16, 2020, OFAC issued a fact note concerning the “provision of humanitarian assistance and trade to combat COVID-19.”²⁰⁶ It reiterated that the “Bureau of Industry and Security (BIS), which maintains jurisdiction over the export of most items to Syria, does not require a license for the export of U.S.-origin food and most medicine to Syria.”²⁰⁷ Similarly, on May 11, the EU released a “commission guidance note on the provision of humanitarian aid to fight the COVID-19 pandemic in certain environments subject to restrictive measures.”²⁰⁸ The UK reaction came earlier on March 9 updating its guidance.²⁰⁹

However, these U.S., UK and EU measures do not address the fact that much of the population has no income to buy imported food or imported medicines, nor medical supplies for basic testing, precautions and treatment. This is especially true of the supply of basic items to confront the COVID-19 pandemic (masks, tests, etc.).

The situation deteriorated to a degree that multiple UN agencies issued warnings that the Syrian population “is facing an unprecedented hunger crisis as the prices of basic foods reach levels

Box 13. Interview with INGO representatives working in Syria (June 2020)

The situation today becomes very complex with the financial crisis in Lebanon, the SYP rapid depreciation, the displacements and damage due to the conflict, adding to concerns of the coming Caesar sanctions.

Our major problem concerns the delayed or declined bank transfers due to overcompliance and de-risking by foreign banks. The usual routes that we worked for years are now closed without real explanations. Before, we had delays creating sometimes liquidity problems for us or major difficulties as the donors did not grant no-cost extensions. The delays also cause problems as prices change rapidly with the depreciation. Our main problems are with intermediary – corresponding – banks. They cancel transactions on unclear “internal regulations” criteria even when we produce documentation that there is no need for prior authorization, even by the INGO’s own government. Following the Caesar Act, we are receiving notices advising about termination of transfers. The Lebanese banks are stopping their work with us due to their financial crisis, while their role was essential.

We also have problems to work within GoS-controlled areas, as we need official authorizations from GoS ministries, and they are under sanctions. We have, for example, to buy seeds only from the Ministry of Agriculture (MOA) and pass through the Agricultural Cooperative Bank (ACB). This is forbidden as the bank is listed in sanctions. Under COVID-19 confinement, we need computer equipment and internet lines for remote courses. We cannot guarantee U.S. BIS requirements to monitor who will use the computer. Also, we cannot buy 4G service from Syriatel, also sanctioned. Our staff can’t even use Syriatel GSM service, or SyrianAir or Cham Wings to travel within Syria or buy fuel for their cars in full compliance. Also, we cannot make international tenders and we cannot guarantee the origin of materials and equipment of local tenders.

This is a nightmare of regulations that hinder any efficient delivery of urgent needs. We are always fighting with explicit and implicit redlines. Licenses from the U.S. and EU sometimes take more than six months, with cumbersome legal procedures. Then the procurement and imports cause more delays. There is considerable confusion and contradictory authorizations between different NGOs. The smaller NGOs take unreasonable risks. Under these conditions, getting even more complex with Caesar, NGOs cannot cope with a large COVID-19 crisis.

unseen even at the height of the nine-year conflict, noting a 200% food price hike in under a

205. <https://www.swp-berlin.org/10.18449/2020C21/>

206. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/covid19_factsheet_20200416.pdf

207. https://www.treasury.gov/resource-center/faqs/Sanctions/Documents/faq_all.html#229

208. https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200511-syria-humanitarian-aid-guidance-note_en.pdf

209. <https://www.gov.uk/guidance/sanctions-on-syria>

year.²¹⁰ A WHO representative in Syria declared: “Even in health care settings, I have witnessed crowds of patients in the facilities in which are—there is—no use of masks, even among some of the health medical personnel, because of a lack of personal protective equipment (PPE).”

The COVID-19 pandemic, in addition to the Lebanese financial crisis, the collapse of the Syrian currency value and accelerating inflation, and the unilateral measures, leaves all areas of Syria in a situation of extreme vulnerability to a spread of the infection, which has already started. However, the economic impact and the risk of famine surpass the health risk.

X. The Expected Impact of the Caesar Act

The Caesar Syria Civilian Protection Act is unique legislation for many reasons. It is a U.S. bill which was not passed as a separate law but was instead incorporated in the National Defense Authorization Act for fiscal year 2020. Also, it has a “secondary” character, as it threatens sanctioning on third countries, companies or individuals dealing with the GoS, its central bank or listed persons or entities. The bill does not apply to U.S. citizens or entities.

The bill was signed into law by U.S. President Donald Trump in December 2019 and came into force on June 17, 2020,²¹¹ when two other major events strongly impacted Syria’s economy and its population’s livelihood: Lebanon’s financial crisis, which emerged in October 2019, and the COVID-19 crisis, which emerged in March 2020. Thus, the timing of this unilateral measure had the most severe impact. These three events followed two years of partial economic recovery in Syria, making the impact all the more painful.

In fact, each of the 39 designations released on June 17, 2020, could have been made based on pre-existing unilateral measures, and the Caesar Act was not needed to issue them.²¹² However, the “secondary” aspect of the Caesar Act put serious pressures on Russia and Iran, and the neighboring countries that had not cut their diplomatic and economic relations with Syria, in particular Lebanon, Iraq, Jordan, Egypt, and the UAE. The U.S. special envoy to Syria publicly threatened the UAE that it could be targeted²¹³ under the Caesar Act.

The timing of the Caesar Act in addition to the other two crises is having a severe impact. In fact, the impact came much earlier through the act’s focus on the Central Bank of Syria, as well as through all the de-risking overcompliance practices undertaken by foreign countries, companies, etc. that started when it passed in the Congress in June 2019. The act had been accompanied by an intense communication campaign. These psychological aspects had most probably a significant role in the early stages of the SYP depreciation in mid-2019, before the Lebanese banking crisis (see Figure 44 above). Thus, the Caesar Act intensified the combined impact of the Lebanese crisis and COVID-19 in Syria.

Another aspect of major importance is how the Caesar Act will be applied in areas of Syria not under GoS control, i.e. the self-ruled SDF areas in the northeast and the Turkish controlled areas in the northwest. The pre-Caesar Act U.S. executive orders were not applied in these areas in addition to opening these areas to privileged foreign trade and finance access. Such practices could lead in the long run to the effective partition of the country. In particular, this aspect is

210. <https://news.un.org/en/story/2020/06/1067252> and <https://bit.ly/3f4F1rl>.

211. It is remarkable that Rami Makhlouf, assumed to be the financial hand of the ruling power in Syria, was not designated in the June listing.

212. <https://bit.ly/2ByhUqE>.

213. <https://english.alaraby.co.uk/english/news/2020/6/18/us-threatens-uae-with-sanctions-over-normalisation-with-syria>

subject to the diplomatic disputes in the UN Security Council on the opening of the Ya'roubiya/Rabi'a (Tell Kojar)²¹⁴ border crossing to SDF areas.²¹⁵

On the regional impact, Jordan had announced that “the main goods that are exchanged [between Syria and Jordan] are already exempt from this act and others, and the real obstacles are present on the ground, rather than legal or imposed.”²¹⁶ No statement came from the Iraqi government, but trade between the two countries had downsized greatly, officially for reasons linked to the COVID-19 crisis.²¹⁷

The main impact is on Lebanon, where the Caesar Act is presented as “pressuring Hezbollah”²¹⁸ and the government is called to cut ties with Syria.²¹⁹ Voices are raised in Lebanon to stop the smuggling routes between the two countries; however, these smuggling activities, both ways, are in the heart of the rent-seeking economies of the two countries, which might develop further with their economic and financial crises. Plus, any crackdown on smuggling routes would require a massive military operation, which is improbable. As the Lebanese crisis does not seem to have a solution in the short term, the “U.S. Caesar Act could bleed Lebanon for years to come”²²⁰ on top of its current bleeding. De-risking overcompliance practices already started by international banks and companies will have harsh effects on Lebanon, its banks and companies.

For Syria, “the effects of the sanctions will be devastating to what is left of the Syrian economy and worsening the standards of living even further. This could spark even wider civil unrest, however, given the pattern, the government will most likely suppress this. Paralyzing the Syrian economy will destabilize a region already being challenged by a drop in oil prices, economic crises, and civil unrest in Iraq and Lebanon.”²²¹

The Caesar Act does not add substantial tools to the already existing U.S. executive orders through which U.S. unilateral measures are imposed. However, its “secondary” dimension pressures neighboring and Asian countries in their trade with Syria, and even the EU, in case it intends to ease its own unilateral measures.

The impact of the Caesar Act is mainly due to its timing, disrupting a mild recovery of the Syrian economy, and adding a major psychological dimension to the severe consequences of the Lebanese and COVID-19 crises.

214. Under U.S. military control.

215. See for example <https://onu.delegfrance.org/The-spread-of-COVID-19-in-Syria-is-extremely-worrying>

216. <https://syrianobserver.com/EN/news/58783/jordan-caesar-act-wont-impact-jordanian-syrian-relations.html>

217. <https://bit.ly/2O2RkbO>

218. <https://bit.ly/2O2vg0J>

219. <https://www.arabnews.com/node/1691371/middle-east>

220. <https://www.aljazeera.com/ajimpact/caesar-act-bleed-lebanon-years-200618182518464.html>

221. <https://intelyse.com/what-does-caesar-act-mean-for-syria/>

XI. Conclusions and Policy Recommendations

The unilateral measures imposed by the U.S., as well as by the EU and the U.K., intend to target individuals and entities responsible for human rights abuses and crimes against humanity. However, while the impact of the measures on those individuals is unclear, it is the accompanying measures on Syrian foreign trade and state institutions that have led to the most severe impact on the livelihood of the population and the future of the country.

Conceptually, the unilateral measures do not distinguish between “regime,” or ruling power, and state. However, the designation of state institutions, such as the Central Bank, the Commercial Bank of Syria, or the oil trade company, already significantly disrupts the economic mechanisms of the country. The complications and bans introduced on imports and exports further exacerbate the situation.

The significant consequences of the unilateral measures do not come from their strict text, but from the procedures they impose and the de-risking overcompliance practices they generate from foreign countries’ businesses and banks. These procedures and practices have the highest hindering impact on the production and transportation mechanisms of the economy and on the value chains. They introduce high transaction costs, in turn, significantly reducing the resilience of the population. This impact is noteworthy despite the humanitarian aid provided to ameliorate the effects of the conflict and of population displacement.

These consequences put Syria in a vicious cycle, as the more severe the measures become, the more they lead to more funding needs for humanitarian assistance and relief. And restrictions on state institutions weaken them to a degree that puts any chance of recovery at risk, even if the desired political changes occur.

The unilateral measures of 2011 on Syria struck the agricultural, SME and financial sectors.

The agricultural sector is active and complex in Syria, with long-established state mechanisms to ensure food security, internal economic activity, and exports, despite meager water resources and unpredictable rainfalls. The unilateral measures of 2011, more than the conflict, resulted in drastically reducing irrigated cultivated land and yields. The main impact resulted from the low availability of fuel for pumping water. While the unilateral measures were initially intended for Syrian oil exports, in practice they blocked oil and fuel imports. Even prior to the conflict, the oil balance of the country was significantly deteriorating. The GoS does not have access to the meager but still existing oil resources under SDF and U.S. control in the northeast, while no refineries, major power plants or effective use of oil are located in these SDF areas.

Other challenges also impacted the agricultural sector, including the availability of fertilizers, improved seeds and insecticides, on top of the difficulties of exports. As a result, agricultural production was reduced much below the food security insured prior to the conflict, making the livelihood of the population dependent on rainfall. Drought is common in Syria, and only the relatively good rainfall in 2018-2020 somehow reduced the impact.

The MSME sector in manufacturing has also been strongly impacted. The main vector of the impact of the unilateral measures is the low availability of electricity, as a result of the lack of fuel and the difficulty of importing capital goods and spare parts, mainly for electricity production. In particular, the unilateral measures impacted the pharmaceutical sector, which used to provide 80% of the population’s needs. The economy of this sector was based on a balance between imported raw materials under Western licenses and exports to developing countries. The unilateral measures resulted in ending the manufacturing licenses and the associated quality controls and spare parts, as well as the decline of exports. Syria again became a strong importer of medicine.

The banking and financial sector was also strongly impacted, particularly private banks, though they were not specifically designated. Most of the private Syrian banks linked to Lebanese and Jordanian banks lost their Western correspondence relations due to de-risking and overcompliance. This occurred while the Arab Gulf classical and Islamic banks took the lead of the sector, despite their more recent introduction in the market and the sanctions listing of some of them, their shareholders, or associated exchangers.

The unilateral measures resulted in making the Syrian banking sector strongly dependent on the Gulf, as well as on imports, mainly from Turkey and Lebanon.

While the effects of the unilateral measures built up gradually after 2011 and throughout the conflict years, mainly in the last year they suffered the most severe consequences. The Lebanese financial crisis impacted the Syrian economy, blocking the deposits of Syrian middle class citizens and businesses in the failed Lebanese banks and disrupting one of the remaining routes for imports, even for basic products. This led to a sharp devaluation of the Syrian pound and to a sharp increase of inflation, or hyperinflation. The COVID-19 crisis confinement and the pressures exerted on Syria and Lebanon by the Caesar Act exacerbated this impact, with the UN warning about the risks of famine, much beyond the risks of the pandemic.

Thus, the U.S., EU and U.K. unilateral measures had large unintended consequences on the Syrian economy and the livelihood of the population, with consequences that cannot be attributed only to the conflict. This is incompatible with the principle of “do no harm” to the population. The common acceptance of harm to the population in the context of “regime change” or “regime behavior change” is strongly arguable. The consequences of the unilateral measures on the political economy of the country reinforce the population’s dependency on the ruling power. Moreover, these measures *de facto* split the country into zones of influence and introduce the seeds for its dismantling.

These unilateral measures should have been limited only to individuals with proven responsibilities on human rights abuses and crimes against humanity. Also, these measures should have been accompanied with mechanisms to address their direct and indirect effects brought by the broadly applied de-risking overcompliance practices. However, such mechanisms could not be similar to the “food for oil” program adopted by the UN in Iraq during the 1990s, not only because Syria doesn’t have enough oil to export, but mainly because those mechanisms did not prevent the severe deprivation of the Iraqi population.

The mechanisms to be implemented to counter de-risking overcompliance, preferably under UN auspices, should focus on increasing agricultural production and food security, and MSME activities with a strong involvement of the formal financial sector instead of the informal *hawala* and other systems.

The implementation of such mechanisms is of utmost importance with the expected duration of the Lebanese and COVID-19 crises, and a year of severe drought in Syria with devastating consequences.

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XIII. Glossary of Abbreviations

| | | | |
|--------|---|-------|---|
| ACB | Agricultural Cooperative bank | IFC | International Finance Corporation |
| ACU | Agency for Combating Unemployment | IVTS | Informal Value Transfer Systems |
| AOG | Armed Opposition Groups | LBP | Lebanese pound |
| ARBS | Arab Bank Syria | LFS | Labor force survey |
| BASY | Bank Audi Syria | MSME | Micro, small, and medium enterprise |
| BBS | Byblos Bank Syria | NGO | Nongovernmental organization |
| BBSF | Banque BEMO Saudi Fransi | OFAC | U.S. Office of Foreign Assets Control |
| BBSY | AlBaraka Bank | PEEG | Public Establishment for Electricity Generation |
| BDL | Banque du Liban (Central Bank of Lebanon) | QNBS | Qatar National Bank Syria |
| BOJS | Bank of Jordan, Syria | SCPR | Syrian Center for Policy Research |
| BSO | Bank of Syria and Overseas | SDF | Syrian Democratic Forces |
| CBS | Central Bank of Syria | SGB | Syria Gulf Bank |
| CBstat | Central Bureau of Statistics | SHRQ | Al Sharq Bank |
| CHB | Cham Bank | SIIB | Syria International Islamic Bank |
| ComBS | Commercial Bank of Syria | SME | Small and medium enterprise |
| CPI | Consumer price index | SMEDC | SME Development Commission |
| FSBS | Fransabank Syria | SySR | OFAC Syrian Sanctions Regulations |
| GDP | Gross domestic product | TOE | Ton of oil equivalent |
| GoS | Government of Syria | WMD | Weapons of mass destruction |
| HTS | Hay'at Tahrir Al-Sham (formerly Al-Nusra Front) | YPG | Kurdish People's Protection Units |
| IBTF | International Bank for Trade and Finance | | |

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