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# Mitigating US Sanctions on Iran: The Case for a Humanitarian Special Purpose Vehicle

## GLOBAL SECURITY POLICY BRIEF

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# Mitigating US Sanctions on Iran: The Case for a Humanitarian Special Purpose Vehicle

## Introduction

Announcing the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA), President Donald Trump promised to institute "the highest level of economic sanction" against Iran.[1] Upon its withdrawal, the Trump administration launched a "maximum pressure" campaign, reimposing all secondary sanctions lifted as part of the nuclear deal whilst targeting new Iranian persons and companies.

The European Union and a quorum of its member states are now attempting to salvage the deal. They must strive to sustain the deal's economic benefits for Iran even with US secondary sanctions in place. As part of this effort, the European parties to the JCPOA (France, Germany, the United Kingdom, and the European Union) recently announced the launch of a special purpose vehicle (SPV), a payment mechanism described by EU High Representative Federica Mogherini as "a legal entity to facilitate legitimate financial transactions with Iran."[2]

While the Europeans see these efforts as necessary to sustain the nuclear agreement and protect Europe's ability to maintain legitimate trade with Iran, the SPV is seen by the Trump administration as an attempt to evade US sanctions and undermine US foreign policy and financial primacy. In public statements issued in the wake of Mogherini's announcement, US Secretary of State Mike Pompeo and National Security Adviser John Bolton described the SPV as a "counterproductive" tool aimed at supporting Iran's military campaigns in the Middle East, and questioned Europe's ability to bring the new legal entity into operation.[3]

There is one issue on which US officials have been in consistent agreement with their European counterparts, at least rhetorically. US and European officials have publicly declared that the Iranian people should be spared from the pain of economic sanctions. Senior officials in the Trump administration emphasize that the "financial war" against Iran is targeted against the country's political and military leadership and not its ordinary citizens. In a recent speech, Secretary of State Pompeo implored the global community to "make no mistake" and to understand that "[American] sanctions and our economic pressure are directed at the regime and its malign proxies, not at the Iranian people." Pompeo explained that the United States maintains "humanitarian exemptions to all of our statutory sanctions that are being re-imposed, and have a range of authorizations in place to allow for certain activities that benefit the Iranian people."[4]

Such statements point to one potential area of cooperation between Europe and the United States: ensuring that humanitarian trade with Iran can persist even under stringent US sanctions. In this context, humanitarian trade pertains to the export of food items, agricultural commodities, medicine, and medical supplies and is broadly accepted to be exempt from sanctions.[5] Trade in most consumer goods is also exempted.

Despite these exemptions, the imposition of secondary sanctions restricts trade in these goods by making the necessary financial services more difficult to access. Such indirect restrictions on humanitarian trade commonly result from sanctions campaigns and have been observed in a wide range of cases such as Iraq, North Korea, Cuba and Myanmar. As noted by Richard Nephew, a former Obama administration official and a principal architect of the Iran sanctions program, while there has been an increasing effort among policymakers

to avoid "the curtailment of humanitarian trade… the intention of sanctions is always to make the new status quo uncomfortable and unpleasant for the target." More simply, Nephew makes clear that "sanctions are a form of violence."[6]

In an effort to minimize this "violence" and to support its commercial actors that wish to trade with Iran, the foreign and economic ministers of France, Germany, and the United Kingdom wrote to Secretary Pompeo and Secretary of Treasury Mnuchin in May demanding that "the extraterritorial effects of US secondary sanctions will not be enforced on EU entities and individuals, and the United States will thus respect our political decision and the good faith of economic operators within EU legal territory." They included specific requests for "public confirmation of areas of business that are exempt from US secondary sanctions, such as pharmaceuticals, healthcare" and "exemptions to maintain banking channels and financing channels with Iran."[7] According the French economy minister, Bruno Le Maire, the request was rejected.[8]

> ***"The limited number of viable banking channels is the foremost restriction on Iranian trade."***

Despite this, US officials have continued to promise that humanitarian trade will continue unfettered. Indeed, US trade with Iran, which is almost exclusively humanitarian in nature, has risen markedly since Trump withdrew from the JCPOA in May, though it remains below Obama-era averages over the course of his administration.[9] In a briefing to reporters ahead of the re-imposition of US sanctions, Pompeo reiterated that "our actions today are targeted at the regime, not the people of Iran."[10]

Europe needs to hold the US to its word. Establishing a humanitarian SPV (H-SPV), as suggested in this paper, would enable the EU and European governments to sustain vital trade with Iran and challenge US characterization of the SPV as a tool for sanctions evasion, while holding the Trump administration accountable to its promises to the people of Iran. The case for the H-SPV, and the recommendations set out in this paper are informed by two months of consultations with stakeholders in Europe and Iran as well as insights gathered during the 5th Europe-Iran Forum, a round table meeting of European and Iranian business leaders and government officials convened by Bourse & Bazaar in Paris, France on November 14. This report also builds on a study of the "banking architecture" that underpins Europe-Iran trade, published by the authors in May 2018.[11]

## Europe's SPV Gambit

The motivation behind the establishment of a special purpose vehicle for Iran transactions stems from the extraterritorial reach of US financial sanctions. Now that US secondary sanctions on Iran have been re-imposed, financial institutions face significant fines if they inadvertently facilitate transactions on behalf of designated entities. Banks that fall foul of sanctions also risk losing access to US financial markets, "a death penalty for any modern bank," in the words of the US Treasury Department's former Under Secretary for Terrorism and Financial Intelligence David S. Cohen.[12] As a result, the number of global financial institutions willing to facilitate business with Iran has reduced significantly, even relative to the fall in general commercial interest in Iran. The limited number of viable banking channels is the foremost restriction on Iranian trade with Europe, China, India, and Turkey among other global markets.

While European governments have indicated that they will continue to support the small number of banks that are presently facilitating Iran-related transactions, a separate process has been launched to sustain Europe-Iran trade while reducing the overall dependence

on financial channels. The EU and E3, as parties to the JCPOA, have committed to establishing an SPV to facilitate trade between Europe and Iran while minimizing the need for financial transactions between the financial systems of the two markets. Importantly, while the SPV is primarily a European initiative whose success will depend on European leadership, it will remain open to other countries. In announcing the scheduled launch of the SPV, EU High Representative Federica Mogherini drove home this point by noting that the vehicle "could be opened to other partners in the world."[13] Recent reports suggest that China, a key market for Iranian exports, is interested in utilizing the European SPV or replicating its approach.[14]

While many technical details have yet to be agreed, the general scheme of the SPV calls for a state-owned company which will count several European countries among its shareholders. The SPV would have its own staff which would be responsible for keeping a ledger of trade with Iran in order to provide what can be termed a "netting" or "compensation" service to European exporters. This means that the SPV would identify companies that wish to make payments or transfer funds to Iran and companies that wish to receive payments or repatriate funds from Iran. Through its ledger oversight, the SPV would help coordinate payments so that exporters can be paid from funds outside of Iran while importers can be paid by funds within Iran. In this way, trade can be conducted without transactions between European and Iranian banks. While an SPV with this basic design will be established "sooner rather than later," according to Mogherini, it is unlikely it will be operational until early next year, possibly by January 17, the three year anniversary of JCPOA implementation.[15] Even then, the initial volume of trade it can support will be minimal. It is also unclear to what extent European companies will feel comfortable using the mechanism.

Presently, European authorities are focused on the establishment of a single SPV. Under US sanctions authorities, and based on guidelines issued on the implementation by the relevant authorities, the US Treasury Department could target entities participating in the SPV, even if it does not involve financial channels going through the United States. In a recent briefing, Special Representative for Iran, Brian Hook stated that the "US will not hesitate to sanction any sanctionable activity in connection with our Iran sanctions regime" suggesting that the SPV will be targeted if it facilitates what the US considers sanctionable trade, such as purchases of Iranian oil. On this basis, Europe faces a dilemma in establishing the SPV. The mechanism will be most valuable if it truly serves to blunt the reach of US extraterritorial sanctions. But the facilitation of what the US considers sanctionable trade through the SPV will make the use of the mechanism, especially in its unproven form, a risky bet for European companies.

> ***"The SPV will be most valuable if it truly serves to blunt the reach of US extraterritorial sanctions."***

European governments ought to develop the capacities of the SPV by creating separate vehicles for sanctionable and non-sanctionable trade. By first launching a humanitarian mechanism—the H-SPV—Europe will be able to strike a balance between advancing the principle of economic sovereignty, while ensuring the new mechanism can be used by European businesses to boost trade with Iran—especially in vital food and medicine—as soon as possible.

## The Urgency of Humanitarian Trade

Europe's ability to keep Iran in the nuclear deal will depend largely on the success of efforts to spare the Iranian people from the harm of US secondary sanctions. Even before the reimposition of sanctions on November

4, reports of medicine shortages and rising costs of food pointed to the pernicious effect of the sanctions. In a recent speech, President Rouhani acknowledged that the Iranian people were facing mounting pressure, stating that the members of his government "understand people are suffering and under pressure. People's lives, in particular those on a fixed income, are very difficult."[16] While the Iranian government is seeking to ameliorate this pressure with policies such as expanded welfare handouts, in the same speech Rouhani drew a link between the effort to blunt the effect of sanctions and the European project to establish an SPV, describing European efforts in the face of US antagonism as a "rare victory."

Despite considerable domestic capacity, Iran is not self-sufficient in the production of food or medicine. Over the last decade, the average reliance on imports as a proportion of total domestic consumption was 28 percent for barley, 70 percent for corn, 48 percent for rice, and 28 percent for wheat. As such, the consumption of essential foodstuffs remains susceptible to import supply shocks despite boosting of domestic production.[17]

Likewise, while 70 percent of Iran's pharmaceutical market is controlled by local companies, Iran imports many of the raw materials used to produce medicines. The country also imports most of the advanced therapies used in the treatment of chronic illness. Iran is already experiencing shortages of essential medicines such as fever-reducer paracetamol, antimicrobial fluconazole, and cancer medication vincristine. The public health implications are dire. Doctors at Iran's leading children's cancer charity have warned that the "Re-establishment of sanctions, scarcity of drugs due to the reluctance of pharmaceutical companies to deal with Iran, and a tremendous increase in oncology drug prices… will inevitably lead to a decrease in survival of children with cancer."[18]

Just as in the previous period of secondary sanctions application, exemptions for humanitarian trade are proving insufficient to sustain the import of foodstuffs and medicines to Iran at sufficient volumes. The latest OFAC guidelines stipulate that "Broadly speaking, transactions for the sale of agricultural commodities, food, medicine, or medical devices to Iran are not sanctionable unless they involve persons on the SDN List that have been designated in connection with Iran's support for international terrorism or proliferation of weapons of mass destruction."[19] This means that so long as an Iranian bank has not been designated under a terrorism or proliferation related authority, and remains exempt from secondary sanctions, European and even American companies should be able to conduct transactions pursuant to humanitarian trade with the bank. Such banks also remain connected to the SWIFT bank messaging system.

However, of the four Iranian banks that have in recent years facilitated the lion share of humanitarian trade with Iran—Parsian Bank, Middle East Bank, Pasargad Bank, and Saman Bank—only three remain viable for that purpose. In September of this year, Parsian was declared a Specially Designated Global Terrorist (SDGT) by the US Treasury. This terrorism designation, which was made on loose grounds that made many sanctions attorneys "nervous," rendered Parsian ineligible to conduct humanitarian trade.[20] Kourosh Parvizian, Parsian's CEO, described the new sanctions as a "mistake" that threatened "a bank that handles the transactions behind the majority of imports of foodstuffs, medicine and other humanitarian trade items for the Iranian people."[21]

Following the targeting of Parsian, a private sector enterprise widely considered one of Iran's best-run banks, European financial institutions face the possibility that their correspondent banks in Iran could be cut off by new designations at any time.[22] Moreover, Trump administration officials regularly warn companies that "the Iranian regime will deceive your companies, undermine the integrity of your financial systems, put

your institutions at risk of our powerful sanctions". The spectre of new designations has dissuaded most European banks from engaging with Iranian financial institutions.[23] Naser Naghdi, the CEO of Darou Pakhsh, a state-owned pharmaceutical company and the country's largest, recently explained in an interview, "Sometimes companies agree to sell us drugs but we have no way of paying for them. On one occasion, our money was in the bank for four months but the transfer repeatedly got rejected."[24] German pharmaceutical company Bayer, a longstanding client of Parsian Bank, has not been able to process payments since Parsian was designated. Bayer is now moving its accounts to another Iranian financial institution, though it is unclear if its European bank will agree to continue facilitating Bayer's transactions with a lesser-known bank in Iran.[25]

> ***"The trade of medical supplies is legal in theory and virtually impossible in practice."***

In a November 2 briefing, journalists pressured US Special Representative for Iran Brian Hook on the lack of "safe channels" for humanitarian trade and the pervading fear that even if companies sell food and medicine in Iran, "they will be targeted by US sanctions." Hook's response was as perfunctory as it was telling, "The burden is not on the United States to identify the safe channels." He claimed that the "burden is on the Iranian regime" to ensure that its financial system "complies with international banking standards" and is thus able to facilitate humanitarian trade.[26]

Hook's comments underscore the importance of Iran's continued efforts to reform its financial system, principally by enacting the action plan set forth by the Financial Action Task Force (FATF) which calls upon Iran to strengthen anti-money laundering and counter-terrorist financing laws and regulations. Iran has until February 2019 to meet the FATF requirements. European governments have made it clear that progress in these areas is essentially a prerequisite for any concerted effort to protect banking ties. The pressure of US sanctions and weaknesses endemic in Iran's financial system combine to significantly constrain the number of viable banking channels between Europe and Iran, making it increasingly difficult for food and pharmaceutical companies to reliably and cost-effectively receive payments from Iran.

These challenges are not new. In 2013, Siamak Namazi, who is now imprisoned in Iran, compiled an influential report for the Wilson Center looking at the effects of sanctions on medical supply shortages in Iran, which were already appearing as US sanctions were imposed on Iran.[27] In an op-ed drawn from the report, Namazi explains the fundamental incompatibility of broad banking sanctions with humanitarian exemptions:

> *The system is irrational: There is a blanket waiver to the sanctions to facilitate humanitarian trade, but other laws restricting financial transactions with Iran make it impossible to implement that exception. So the trade of medical supplies is legal in theory and virtually impossible in practice because Iran cannot pay for the Western medicine it needs.*[28]

Namazi's report focused on medical supply shortages but similar interruptions were visible in the export of foodstuffs to Iran at the time, albeit on a smaller scale. Medical exports fared worse than food exports in part because global trade in food commodities is dominated by American companies, which enjoy favoured access to licenses from OFAC that smoothed their sales to Iran. European companies dominated the trade in medicine and were less adept at navigating the complexities of US export control licensing.[29]

A recent ruling by the International Court

of Justice, in which the Court found that the Trump administration's reimposition of sanctions breaches the 1955 Treaty of Amity between Iran and the United States, has drawn attention to these restrictions.[30] Despite the Trump administration's forceful rejection of the ruling, the judgement has brought wider recognition to a simple fact: since withdrawing from the nuclear deal, the US has failed to demonstrate how it will proactively ensure that humanitarian trade with Iran continues "in practice," an important distinction drawn by the court given that legal exemptions for such trade exist "in principle." The ruling reflects doubt that the Trump administration will ensure that humanitarian trade with Iran persists at reasonable and sufficient volumes—reasonable in respect to the intention of US sanctions, and sufficient in respect to the basic needs of the Iranian economy.

> ***"Ensuring sufficient humanitarian exports to Iran is a political imperative."***

That Iran is a country of relative prosperity means any sudden degradation in quality of life will be felt acutely by a population accustomed to plenty. In this way, ensuring sufficient humanitarian exports to Iran is a political imperative not just for the Iranian government but also for the parties to the JCPOA, as Iranian public sentiment about the nuclear deal and broader diplomatic engagement risks turning negative in the face of sanctions pain. The Iranian public is struggling to "answer the question of why sanctions are being re-imposed and why they must suffer." There is a growing fear that "suffering is unconditional and permanent, unrelated to their actions as citizens (who voted for Hassan Rouhani) or their government (which achieved the nuclear deal) or the international community (which vowed to stand up to the United States)."[31] As these fears grow, Iranian and European leaders look impotent and the JCPOA becomes increasingly vulnerable to Iranian domestic political turbulence.

## Towards a Humanitarian SPV

The creation of a single, all-encompassing SPV may not work as a proper response to address the risks to humanitarian trade. Given that Europe must make humanitarian trade the foundation of its economic relations with Iran and ensure the SPV is fit-for-purpose, an H-SPV ought to be devised first in accordance with the following criteria:

### *Mandate*

The first iteration of the SPV should focus exclusively on humanitarian trade. This will minimize the chances that such so-called H-SPV will be targeted by US authorities and will reduce the political anxiety among member states that participating in the H-SPV project will strain relations with the Trump administration. A declared humanitarian purpose will accelerate the willingness and ability of companies to engage with the new vehicle, as companies engaged in humanitarian trade are those currently conducting trade through precarious financial channels. Speaking at the 5th Europe-Iran Forum, a manager at one of the largest European pharmaceutical companies made it clear that his company would not be able to use an SPV mechanism unless it were expressly devoted to humanitarian trade. His warning to policymakers was echoed by several attorneys present at the meeting, who noted that an SPV that boasted a declared humanitarian purpose and strong due diligence protocols, would be far easier to recommend to clients as an appropriate mechanism through which to conduct trade.

### *Function*

Policymakers and business leaders envision different models for how the SPV would improve the flow of goods and payments.

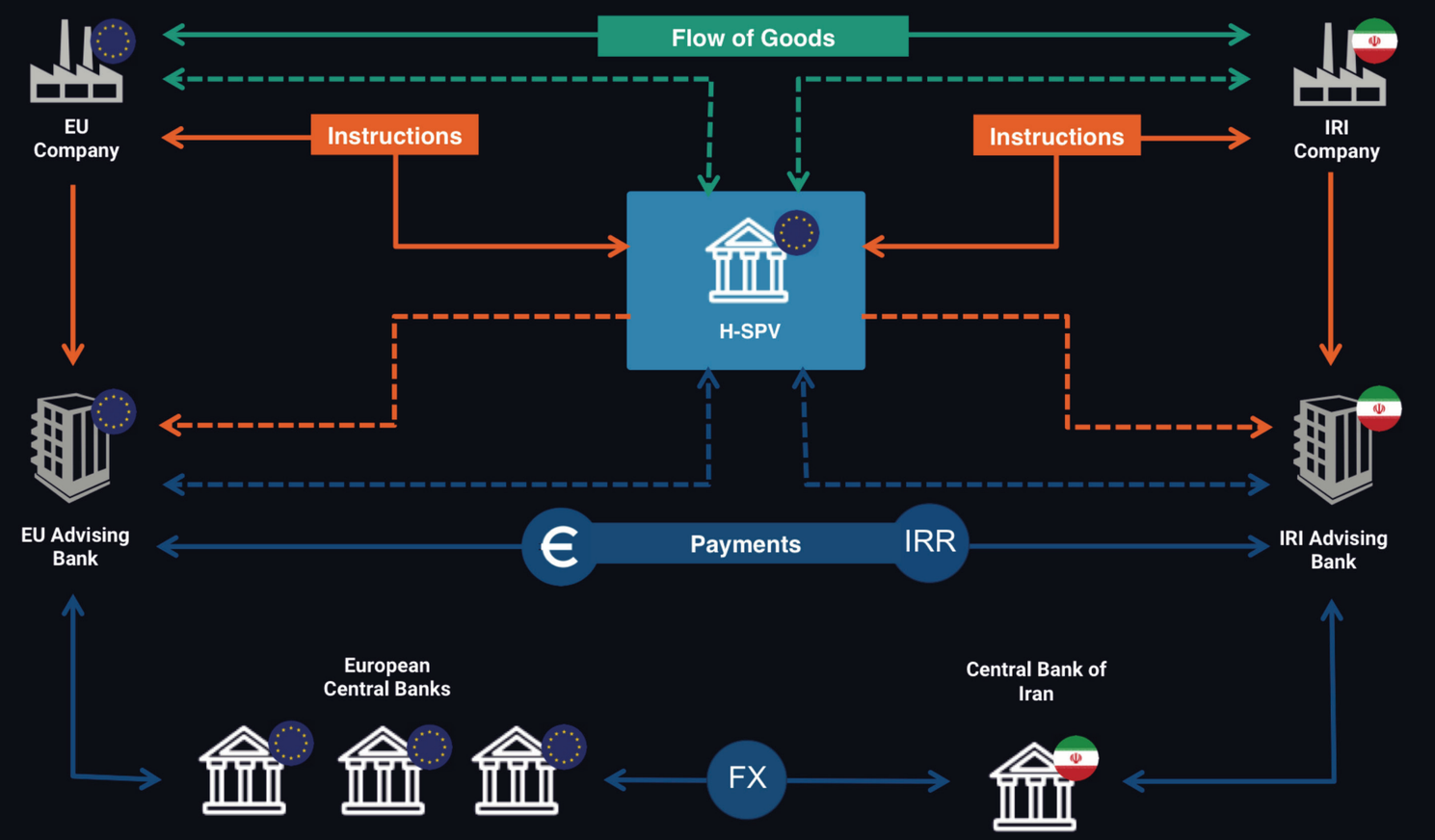
Policymakers seem inclined to establish the SPV according to a "compensation" or "netting" model. Following this model, the H-SPV would serve as the *coordinator* of humanitarian trade payments between Europe and Iran, receiving documentation for a given transaction from the exporter and importer, conducting due diligence, and issuing payment instructions to the importer according to a ledger of trade. In such a model, the H-SPV would serve to facilitate money transfer without the movement of funds between the European and Iranian financial systems, reducing pressure on banks. However, in more advanced, alternate model, the H-SPV would serve as a *counterparty* in the flow of goods and payments between exporters and imports. In such a "back-to-back" model, an Iranian importer would be receiving goods and making its payment from a European state-owned entity, while a European company would avoid having an Iranian counterparty in its trades. While there are factors such as aftersales liability to consider, the back-to-back model reflects how many European companies are presently structuring their trade with Iran, using smaller intermediaries in jurisdictions with banks willing to receive payments from Iran, as well as how Iranian companies have historically traded with the government trading houses of Asian countries. See the diagram on next page for more details.

In both the compensation and back-to-back models, the focus of the H-SPV on humanitarian trade opens the possibility of a direct link with European financial institutions, including European central banks. Such a link could be used to offset the trade deficit between Europe and Iran in non-oil trade, and increase the value and volume of trade that can be facilitated by compensation through use of Iranian foreign exchange reserves in Europe. In the back-to-back model, these links would allow the H-SPV to send and receive payments from its own accounts. Importantly, in both models, government ownership of the H-SPV would enable direct compliance oversight by member state regulators to ensure that the know-your-customer and know-your-transaction due diligence conducted in support of the facilitated transactions meets standards. Such oversight would be similar to that exercised by the Obama administration as part of the humanitarian trade channel established pursuant to the initial sanctions relief granted under the Joint Plan of Action (JPOA) in 2013. Exercising such oversight could also provide Europe valuable experience that could be useful in the creation of an EU-OFAC, a European equivalent to the US Treasury Department's sanctions office.

### *Participants*

While the H-SPV would be foremost intended to serve European companies, the mechanism could be opened to other trading partners, such as China and India, as repeatedly suggested by Mogherini. But the humanitarian dimension of the proposed mechanism would also allow a more ambitious turn of economic diplomacy. In its efforts to facilitate humanitarian trade, the Trump administration will encounter similar challenges regarding the overall reluctance of banks to engage with Iran-related transactions. Europe could invite the United States to participate in the H-SPV in recognition of a shared commitment to ensure that the Iranian people are not unduly harmed by sanctions. Iran would likely welcome such a move as it could be characterized as an acknowledgement on the part of US authorities that a more proactive and pragmatic approach to humanitarian trade is required, beyond placing the burden solely on European and Iranian stakeholders to establish viable channels. US participation could also extend to increased visibility on the due diligence conducted in support of facilitated transactions, further reassuring all parties of the compliant nature of the ensuing trade.

# H-SPV: Goods and Payments Channels




## COMPENSATION MODEL

H-SPV as coordinator

1. H-SPV receives documentation from exporter and importer, including L/C
2. H-SPV conducts due diligence
3. H-SPV consults ledger of trade
4. Sends payment instructions according to compensation scheme*
5. Exporter ships good to importer when payment is received

## BACK-TO-BACK MODEL

H-SPV as counterparty

1. H-SPV Receives order from importer, including L/C
2. H-SPV conducts due diligence
3. H-SPV laces order with exporter
4. Exporter informs H-SPV order is ready
5. H-SPV takes payment from importer directly from Iran or via compensation
6. H-SPV pays exporter*
7. Exporter forwards shipment to importer on behalf of H-SPV

*Central banks can serve as financial intermediaries to reduce compliance risks for advising banks

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### *Development*

While an SPV focused on sanctionable trade by the US is unlikely to develop far beyond the netting service currently envisioned, the H-SPV could develop in terms of its mandate and function. First, the H-SPV could be used to facilitate European trade with any country in which banking ties are restricted. The government of Cuba has already expressed its interest in the SPV mechanism to EU officials.[32] The H-SPV could bolster an independent European trade policy, ensuring that European companies can export the vital goods and services even if in contravention of US policy. Second, the function of the H-SPV could be expanded to develop into a "gateway bank" which serves as an intermediary between the Iranian and European financial systems.[33] While securing the necessary regulatory approvals is a time and resource intensive process, the advantage of establishing a dedicated, state-owned bank for humanitarian trade would be to vastly increase the volume of humanitarian trade through the provision of merchant banking services such as the issuance of letters of credit. Rather than rely on a small number of Iran-friendly European banks or on a channel established between central banks, the H-SPV itself could become a full-service merchant bank, the same role played successfully by state banks in China and India during the previous round of sanctions, although without the specific attention to sanctions-exempt trade.

The immediate challenges facing humanitarian trade are so significant that the Swiss government has recently opened negotiations with the US over the establishment of a specific banking channel.[34] Home to several major pharmaceuticals manufacturers, food companies, and commodities traders, Switzerland is perhaps Iran's single most important partner in humanitarian trade. Under the Obama-era sanctions, several Swiss banks maintained ties with the likes of Parsian, Middle East Bank, Saman, and Pasargad. That the Swiss government now considers it necessary to intervene could indicate that these Swiss banks are more reluctant to engage with Iranian companies due to the Trump administration's aggressive stance on all Iran-related commerce. Faced with the same challenges across its larger jurisdiction, European governments must reconceive the SPV project to properly address the likelihood that the few banking channels that sustained humanitarian trade in the previous sanctions period may not persist for much longer.

> ***"The H-SPV ultimately advances the cause of European and Iranian economic sovereignty."***

Devising the H-SPV in accordance with these criteria would help Europe achieve several goals:

***Deliver more relief, more quickly.*** Launching the H-SPV would allow Europe to more quickly demonstrate its ability to sustain vital trade with Iran in the face of US sanctions. The H-SPV can be brought online faster, more reliably, and with a clearer direct impact on the wellbeing of the Iranian people than a mechanism for general trade.

***Advance the cause of economic sovereignty.*** While it could be argued that designing a mechanism to avoid sanctionable trade would reflect acquiescence to US sanctions, the H-SPV ultimately advances the cause of European and Iranian economic sovereignty. The granting of Significant Reduction Exemption (SRE) oil waivers by the US serves to lock Iran into specific humanitarian channels as oil payments made by customers are placed in escrow accounts and can only be used for sanctions-exempt trade. The development of the H-SPV would give Iran the choice of whether or not to spend its accrued foreign exchange. The H-SPV would enable Iranian private sector firms to use their financial resources within

Iran to pay for humanitarian imports from Europe, in effect, conducting "business as usual." If Iran can indeed continue to import a meaningful volume of food, medicine, and consumer goods from Europe in the face of US sanctions, the foundation of Europe-Iran trade ties will be immunized from the effect of US sanctions. Of course, the creation of the H-SPV could be followed by the creation of a second mechanism to focus on trade in goods other than food and medicine.

> ***"The H-SPV would serve as a test of the US commitment to protect humanitarian trade."***

***Test US commitment to humanitarian trade.*** The H-SPV would serve as a test of the US commitment to protect humanitarian trade. If the US accepts to join the H-SPV, Europe will have effectively addressed the issue of compliance fears that might linger around any Iran-specific mechanism. If the US refuses, Europe will be further justified in pressuring US authorities for licenses and other measures that will provide comfort to its banks regarding the SPV. Importantly, the negotiations around the H-SPV could serve as an opportunity to de-escalate the transatlantic rift over Iran sanctions. The US could opt not to join the SPV, yet still endorse the concept of a European mechanism that sustains trade without inherently weakening the overall architecture of US sanctions.

***Protect diplomacy in the age of financial warfare.*** Finally, the H-SPV could prove innovative from the standpoint of sanctions policy. In a world where the imposition of unilateral sanctions looks increasingly likely, the development of the H-SPV model could help the international community protect countries from unjustified financial warfare and ensure that diplomacy remains attractive for the targeted country. "Smart" sanctions policy must encompass not just the sanctions themselves, but also the mechanisms and institutional arrangements that accompany them. Insofar as mechanisms such as the H-SPV can serve to prevent the collateral damage of financial sanctions, they could become part of sanctions best practice.

## Conclusion

One of the challenges facing European policymakers is that the urgency of their efforts to sustain the benefits of the Iran nuclear deal is inextricably tied to questions over Europe's role within the political and economic order principally dominated by the US. The creation of an SPV-type mechanism could be seen as a matter of great strategic importance, but policymakers must realize that the SPV itself is first and foremost a mechanism for use by the small number of European companies that are desperately trying to maintain their commercial activities in Iran. Shedding some of the grand strategic considerations should enable European policymakers to view the SPV undertaking more pragmatically, and understand that an initial focus on humanitarian trade via an H-SPV is not just the tactical choice but also a humanitarian imperative.

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