

# IN AN OIL SLICK: ON IRAN SANCTIONS

Relevant for: International Relations | Topic: India - Middle East

Faced with the U.S.'s intransigent demand that all countries put a full stop to oil imports from Iran or face sanctions, the Indian government has indicated it will 'zero out' oil imports after the May 2 deadline. Statements from the Petroleum and External Affairs Ministries suggest the government's focus is now on finding alternative sources of energy, and minimising the impact on the Indian market. At last count, India was importing about 10% of its oil needs from Iran, although it had considerably reduced its intake over the last few months. The U.S. has made it clear that Indian companies that continue to import oil from Iran would face severe secondary sanctions, including being taken out of the SWIFT international banking system and a freeze on dollar transactions and U.S. assets. In response, Indian importers, including the oil PSUs, have decided that sourcing oil from Iran is unviable at present. As a result, the government is seeking to explain the decision as a pragmatic one, taken in India's best interests. Officials point to the six-month reprieve, from November 2018 to May 2019, that they received from the U.S. in the form of sanctions waivers to import Iranian oil, and the exemption to continue developing the Chabahar port, as positive outcomes of the negotiations over the past year. Such arguments are, however, not very convincing. India has, in effect, now decided to cave in to U.S. pressure on the issue less than a year after External Affairs Minister Sushma Swaraj said that India would recognise only UN sanctions, not "unilateral" ones. In fact, last February Prime Minister Narendra Modi vowed in Iranian President Hassan Rouhani's presence in Delhi to increase India's oil intake from Iran.

India may stop oil imports from Iran

There are other real costs attached to the U.S. ultimatum that India may have to bear. The price of oil has already shot up above the \$70 mark in April. In addition, Iran has threatened to shut down the Strait of Hormuz, a key channel for global oil shipments, which would further lead to inflationary trends, not just for oil but other commodities too. Any direct backlash from Iran for its decision will also jeopardise India's other interests in the country, including its considerable investment in the Chabahar port, which India is building as an alternative route for trade to Central Asia. In the larger picture, India isn't just testing its traditional ties with Iran, but also giving in to President Donald Trump's blatant bullying after his administration withdrew from the Iran nuclear deal. Instead of engaging in what appear to have been fruitless negotiations with the U.S. over the past year, India, China, the EU and other affected entities could have spent their time more productively in building a counter with an alternative financial architecture, immune to the U.S.'s arbitrary moves.

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