

The low-down on India-Iran oil trade

Iran has always been one of India's main suppliers of oil, second only to Iraq and Saudi Arabia, with exports that totalled more than 27 million tonnes last year. The figures make India Iran's biggest buyer after China, and as a result, a target for the U.S. which has declared a campaign to "isolate Iran" after the Trump administration withdrew from the multilateral nuclear deal. For India, which has been told along with other buyers to take oil imports to "zero" by the cut-off date of November 4, its decisions on procuring Iran oil this point onwards is not so much about securing energy as it is about securing India's standing in the world. If it rejects U.S. pressure, it risks sanctions as well as incurring the displeasure of its all-powerful friend and defence partner. If it yields, it risks its relationship with traditional partner Iran, access to important trade routes through Chabahar and the International North South Transport Corridor (INSTC), as well as its international reputation.

In 2012, when the Obama administration wanted to maximise pressure on Iran in order to secure the nuclear deal or the Joint Comprehensive Plan Of Action, it had sent a similar tough message to New Delhi, albeit more discreetly than the Trump administration has. The then Secretary of State, Hillary Clinton, recounts in her book *Hard Choices* that when she visited New Delhi in May 2012, the "more loudly we urged [India] to change course, the more likely they were to dig in their heels." India agreed to cut oil imports by 15% subsequently, but asserted its autonomy. Three months later, the then Prime Minister, Manmohan Singh, even visited Tehran to attend the Non-Alignment Summit, despite U.S. objections. Eventually, New Delhi operationalised a 'rupee-rial' mechanism, under which half of what it owed Tehran for oil imports would be held in a UCO Bank account and made available to Iranian companies to use for any imports from India, an arrangement the Narendra Modi government is seeking to re-energise.

But 2018 is not 2012, and the stakes are higher for the government. Ties with the U.S. are under strain over several issues, including U.S. trade tariffs and India's defence procurement from Russia, and a major divergence on Iran will exacerbate the problem with India's biggest trading partner and fastest growing defence partnership. Moreover, in an increasingly globalised world, where Indian companies compete, any U.S. sanctions will make it hard for refiners, insurers and transport companies to facilitate oil trade, even if India wishes to continue it. On the other hand, India's investment in the Iranian relationship has increased, making a turnaround much more difficult. Just five months ago, New Delhi rolled out the red carpet for Iran's President Hassan Rouhani and committed itself to increasing its oil off-take by 25% this year, as part of easing negotiations for the Farzad-B gas fields India is keen to buy a stake in. India has also committed itself to investing \$500 million to build berths at Chabahar's Shahid Beheshti Port, and \$2 billion to build a rail line through the Zahedan province to Afghanistan, in an effort to circumvent trade restrictions by Pakistan. Iran's other oil importers, China and Turkey, have said they will not accept the U.S.'s diktat.

In the next four months, one can expect complex negotiations between New Delhi and Tehran, and New Delhi and Washington. A U.S. team is expected in Delhi this month, and while a senior State Department official ruled out "waivers or licences" to any country, he did hold out the hope that some flexibility might be negotiable "case-by-case" for countries that agree to reduce oil intake from Iran. Mr. Rouhani, who is on a European tour discussing ways to retain the JCPOA, has warned of dire consequences if the U.S. succeeds in having Iran's oil exports cut, as this is a "national security" issue. While India's oil supplies are diversified, its options in this game of diplomatic brinkmanship are narrowing.

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