

HOW NOT TO CHOOSE AMONG ALLIES

Relevant for: International Relations | Topic: India - USA

In May 2012, Hillary Clinton, then U.S. Secretary of State, visited Delhi on behalf of the Western countries negotiating the Joint Comprehensive Plan of Action (JCPOA), or the nuclear deal, with Iran, to convince India to cut its oil imports from Iran. In her book *Hard Choices*, she later recounted her tough battle with the Indian government, as she ran through the reasons India needed to help put pressure on Iran to return to the negotiating table for the six-party talks. Eventually, India agreed to cut its imports by only about 15%. But cumulative global pressure had the desired impact on Iran, where inflation had risen more than 40% and oil exports declined from 2.5 million barrels of crude each day to about 1 million. JCPOA negotiations that followed eventually led to a deal hailed by the United Nations, that had quarterbacked the talks all through.

What is India-Iran oil trade all about?

As U.S. officials have led a series of delegations to New Delhi in the last few months, they have had a similar mission, but with a completely different backdrop. For starters, the sanctions that the U.S. now proposes trying to ensure India adheres to have been placed not in order to forge any deal, but because the Trump administration has walked out of the JCPOA. In this the U.S. has no support from any other country involved in the deal, and the UN has expressed grave misgivings about the decision. The U.S. has given no evidence that Iran in any way violated the terms of the JCPOA — in fact, the International Atomic Energy Agency's June report concluded that Iran's stockpile of uranium and heavy water as well as its implementation of additional protocols were "in compliance" with the agreement.

Unlike in 2012, the U.S.'s EU allies are now working closely with arch rivals like Russia and China to put a "special payments mechanism", primarily with a view to supporting trade to Tehran to ensure that the Iranian regime does not walk out of the nuclear deal as well.

While the U.S. may succeed in squeezing Iran economically, it is increasingly isolated politically, as was evident at the most recent Financial Action Task Force meet in Paris where the U.S. proposed sanctions on Iran for terror funding. Even so, the U.S. has continued on its unilateral path, without a care for the very "rules-based international order" that it so often invokes.

India should reduce or stop crude oil import from Iran: Moody's

For India, the impact of the American sanctions plan would be manifold, regardless of the waiver. To begin with, there is the shock that sanctions would deal to the oil import bill, given that Iran is India's third largest supplier. There are not only rising costs of oil to contend with, but also the added cost of having to recalibrate Indian fuel refineries that are used to process Iran's special crude. The second impact would be on India's investment in the Chabahar port, which would face both direct and indirect sanctions: as shippers, port suppliers and trading companies refuse to participate in the project. When India had opened the tenders for cranes for heavy lifting at Chabahar a few years ago, for example, it found no takers, and eventually was forced to award the contract to ZPMC in 2017. This problem will only get more acute as sanctions kick in, threatening India's \$500 million investment in the port and its \$2 billion plan for a railway line to circumvent Pakistan and reach Afghanistan and Central Asian trade lines. Finally, there would be the impact on India's regional security situation, which could see the Iranian-Arab divide deepen, Afghanistan's choices dwindle and an angry Iran pitched closer into the China-Russia corner.

Iran oil: India likely to be exempted from U.S. sanctions

Most worrying for India is that all of the above outcomes will follow regardless of whether the U.S. gives India a waiver for sanctions or not. While the 'waiver' list, which U.S. Secretary of State Mike Pompeo has hinted will be issued on Monday, would stave off penalties and allow India to continue some of its trade with Iran, it will not restore the pre-2018 situation. The U.S. has said that it is only issuing temporary waivers, and the waivers are strictly linked to the condition that countries receiving them keep cutting down their purchases from Iran. Along with the JCPOA-linked sanctions, India continues to face sanctions linked to the Countering America's Adversaries Through Sanctions Act, which puts more strictures on dealings with Iran, Russia and North Korea. The waiver is therefore no magic wand to be wished for, as it only pushes the problems for India down the road.

Meanwhile, little thought has been given to Iran's reaction if India keeps submitting to the [U.S.'s sanctions regime](#) against it. With trade levels receding, the Iranian regime may well lose interest in the Chabahar option, and focus on its main port of Bandar Abbas instead, derailing India's grander plans for regional connectivity. There is also the worry that all of India's sacrifices may come to naught, as Mr. Trump may well use the pressure placed on Iran to his own advantage, and possibly open talks with Tehran at a later date. Just months after the U.S. demanded that India close its mission in Pyongyang, Mr. Trump was planning a summit in Singapore with North Korean leader Kim Jong-un.

Given the heavy costs and in the complete absence of any benefits, it is surprising that the Modi government has not been more vocal in its protest against the U.S.'s actions. In May this year, when asked, External Affairs Minister Sushma Swaraj had said very emphatically that India adheres only to "UN sanctions, not unilateral ones". Yet, all the government's moves have been to the contrary, as American delegations have been allowed to come to Delhi and issue dire warnings, of the kind Nikki Haley, the U.S.'s envoy to the UN, did. Meanwhile, Indian officials have made a beeline for Washington to discuss the reasons why India deserves a waiver, from both Iran and CAATSA sanctions. According to these officials, the U.S. has been apprised of India's energy requirement compulsions, and of the cut of about 35-50% in its oil purchases from Iran. On the CAATSA front, the U.S. has also been assured of a significant reduction in Indian defence dependence on Russia, and that no weapons procured, like the recently purchased S-400 missile system, would be used against American interests.

As a result, if the U.S. presses on with sanctions, it would be a marked failure of Indian diplomacy. And if the waiver does come through, as is indicated, it will be no victory, but signify an abject submission to the sanctions themselves. With no gains in the offing from a policy of 'pragmatism', India may have been better off sticking to principle instead.

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