Source : www.livemint.com Date : 2018-11-03

OPINION

Relevant for: World & Indian Geography | Topic: Distribution of key natural resources - Mineral & Oil Resources in world & India

The US oil and banking sanctions against Iran will come into effect on 4 November. As the deadline nears, the oil market is unusually calm. Crude prices have fallen during October. The Organization of the Petroleum Exporting Countries (Opec) crude price basket went down by 8.6 %, while the Brent benchmark fell by 9.4 % during the month.

Notwithstanding short-term fluctuations, a different picture emerges if we take the long-term view. Over a one-year horizon, the Opec benchmark has gone up by 50%, while Brent crude went up by 30%.

Opec has said that the market is well supplied. However, for most of the consuming countries, it is not simply a question of finding replacement oil. Crude import has to be at prices they can afford. The price has already gone up. The Indian crude oil basket is up by nearly 30% since last year, which would add more than 2 trillion to our annual oil import bill if the trend persists. If rupee depreciation is factored in, the effect will be even more pronounced. Prime Minister Modi was alluding to this when he said last month that high oil prices are hurting global economic growth and oil producing countries should do more to bring down prices.

Apart from energy security, there are also issues of connectivity and trade with Afghanistan and Central Asia. Seen against the background of worsening situation in Af-Pak region, this factor assumes added importance.

India is committed to develop Chabahar Port. The port will expand Afghanistan’s options and reduce its dependence on transit trade through Pakistan. The project has been welcomed by all the Central Asian countries. The expansion of Chabahar Port is in no way linked to Iran’s oil exports, which go through the Kharg terminal in the Gulf. The port does not add much to Iran’s revenue; it currently handles less than 1.5% of Iran’s total maritime trade. It is a civilian facility open to all countries.

Apart from Chabahar, India also has interest in International North-South Transit Corridor (INSTC), which runs through Iran. This will improve connectivity with five Central Asian republics.

During the last round of sanctions against Iran, a rupee payment arrangement was evolved. This involved making 45% of oil payments in rupees, which were utilized to cover Indian exports to Iran. Indian exports mostly consist of agricultural commodities, and pharmaceuticals. India does not export weapons or dual use items to Iran. During the last round of sanctions, India reduced its crude import from Iran from 21 million to 10 million tonnes per annum.

This round of sanctions is different, as it is not supported by European Union and the United Nations. Germany, France, UK along with China and Russia continue to support the nuclear deal.

Iran’s compliance with the nuclear accord has been confirmed by the International Atomic Energy Agency (IAEA). As “provisional measures”, the International Court of Justice (ICJ) has ruled against the US sanctions. Nevertheless, the US sanctions remain a potent force.

The increase in oil prices is not only due to impact of sanctions against Iran, but is also driven by

policies pursued by Opec and non-Opec producers to restrict crude oil production to keep the prices high.

For India, the only option that remains is reviving rupee payment arrangement to bring down current account deficit, and ensure continuity in Indian exports, which are largely limited to food and pharmaceuticals.

India has an extremely important and growing relationship with the US. It also has geo-political compulsions, and an age-old relationship with Iran as well as its Arab neighbours.

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