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View Point

Iran Crisis and India's Policy Predicament

*Dr. Zakir Hussain**

India's Finance Minister Pranab Mukherjee's statement on 31 January 2012 in Chicago cleared India's ambivalence on the "Iran Threat Reduction Act of 2011". He eloquently articulated that for India, cutting oil imports from Iran 'drastically' might not be feasible option for a big and developing economy, in such a short term. Although, India has expressed its concerns over the Iranian nuclear programme and has already voted thrice against Iran in IAEA, it has flagged its 'energy' and 'geo-strategic' compulsions to maintain its relations with Iran. This might act to Iran's advantage in the short run. Given that oil plays a vital role in the entire Iranian economy, society and polity, the crippling Act signed by the US President aims at imposing strict sanctions on the Iranian Central Bank and its 'oil exports,' and coerce the 'recalcitrant' Iran to such an extent that it might not be able to finance its suspected nuclear programme.

After winning over the European Union (EU), which imports nearly 20 percent (600,000 b/d) of the total Iranian oil production – Italy 6%, Spain, 7%, Greece, 50% Turkey 50% -, US is cajoling the Asian countries to abide with the Act. Effectively, Asian countries are the largest importers of the Iranian oil, which comprises to approximately 60% of the total Iranian production of 2.5 to 3 million barrels per day (b/d) – China, 30 percent (555,000 b/d), India 16 percent (4, 30,000 b/d), Japan 17 percent (300,000 b/d) and South Korea 9 percent (200,000 b/d). Now, with China and India highlighting their reservations on the issue, it might be an uphill task for US diplomats to convince others to follow up with the sanction.

Iran meets approximately 12-13 percent of India's total oil import, i.e. around 22 million tonnes valued at about $12.68 billion in 2009-10. Besides this, in recent years bilateral non-oil trade between the two countries has grown at a greater pace, currently pegged at around $2.7 billion. Despite the fact that trade is heavily tilted in favour of Iran because of the oil component, the two countries have agreed to work towards stepping up non-oil exports from India, including "Oil for Projects" and offset the looming trade imbalances. Under the current situation, India could increase exports in a range of goods, including farm products such as wheat, industrial goods and gem and jewellery, to Iran. Besides doubling of non-oil trade, Tehran is also considering to take India's help in developing fertilizer plants in Iran; both countries have already set up joint ventures such as the Madras Fertilizer Company and the Chennai Refinery. Indian companies such as ESSAR, OVL (ONGC Videsh Limited) have a presence in Iran. India is also a significant supplier of refined petroleum products, mainly the middle distillates- jet fuels, gasoline and diesel, to Iran. This clearly shows India's energy and economic compulsions and Iran's indispensability for India's energy requirements.

Major reasons may be cited in favour of India's continuation of Iranian oil imports. *First*, like other major economies such as China, USA, Japan and Germany, India is also a hydrocarbons deficient country. India's domestic oil production has already stagnated, hovering around 30-35 percent of the total oil consumption of the 142 million tonnes (2011). Consequently, India cannot afford to modulate its economic growth and compromise its larger national interests.

Second, looking at the energy significance of Iran on one hand and the long term energy requirements on the other, India cannot afford to overlook its own interest. India's growing stature demands that it should calibrate its foreign policy. Accordingly, both the countries have agreed to resolve their year-long pending oil payment crisis though negotiated settlement that 45 per cent of the oil payment would be paid in the Indian Rupee. The concerned Iranian authorities have said to use Rupee, which is 'inconvertible" to other currencies to increase the volume of imports from India. Consequently, this would allow Iran to 'continue trade despite sanctions from the West'. Five Iranian private banks- Bank Parsian, Pasargad, Saman, Sarmaye and Karafarin Bank, which are free from the sanctions, will also open account in India's UCO Bank, which has least stakes in US-European countries.

Needless to say, India needs a robust energy security strategy at least for the next two decades. As evident, West Asia holds nearly 64 percent of the total oil and 40 percent of natural gas of the world, so India needs to be realistic and proactive in hedging its long-term energy interest in the region.

Under Vision Hydrocarbon Policy, 2025 (1998), although India has adopted energy diversification policy, both fuel and destination-wise, India still draws bulk of its oil and gas from the WANA (West Asia and North Africa) region. At present, India is souring more than 65-70 percent of the total oil demand from the outside sources which is expected to grow to 85 percent by 2025 and, according to the International Energy Agency, nearly 95 percent by 2035 and the bulk will be drawn from West Asia in general and the Persian Gulf in particular.

Economically single dollar rise in oil prices in international market costs India an additional $200 million (at exchange rate of $1=Rs.50.0) and due to the regulation of petroleum prices in domestic market, approximately $17 billion are under-recoveries, which the government has to pay to these oil companies. Domestic rise in oil prices have political implications as well. As a result, in the coming two decades, West Asia would remain under "core" concern of India's long-term energy security. In this regard, recently the Group of Ministers in India has cleared a proposal to allow private companies to directly import aviation turbine fuel (ATF) from the International market. This will enable, particularly the aviation industry to scale down its fuel cost, which accounts approximately 40 percent of the operating cost.

Third, at geo-strategic level, Iran keeps significant importance for India in the region. India needs Iran to effectively manage the North- South Corridor programme, which connects South Asia to Europe via Central Asia, the Caucasus and Russia. Besides this, India needs Iran to build the Chahbahar container terminal, Chahbahar-Zaranj railway projects and connects with Afghanistan and its TAPI (Turkmenistan-

Afghanistan-Pakistan and India) Gas Pipeline project. Looking at the growing demand for gas in the country, India also needs to operationalise its long- term annual supply of 5 million tonnes of LNG and development of Farsi oil and gas blocks, South Pars gas fields and LNG projects in Iran.

The present policy statement of the Finance Minister represents India's "consistent" policy approach towards the West Asia in general and the Persian Gulf in particular. India has reiterated its 'principled' stand that either force or undue foreign intervention should not be the line of action in any country's internal affairs. India has also sent a clear message to the 'global community' that India maintains its strategic autonomy on a number of international issues and has calibrated its foreign policy in such a way that India weighs each country's 'strategic' and 'economic' value accordingly.

**Dr. Zakir Hussain, Research Fellow, at Indian Council of World Affairs, New Delhi 110001*

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