



Issue Brief

Iran-India Relations: Exploring Co-operation in Challenging Times

*Rushda Siddiqui**

On the 13th of July 2010, the United States' State Department spokesman, P J Crowley told mediapersons that he expected India to enforce United Nations sanctions against Iran but left it to that country to decide on steps to "convince" the Persian Gulf state to abandon its pursuit of nuclear weapons.¹ This is seen as the latest sign of the US ability to pressurise India into taking decisions against Iran. Previously too, India has been accused of succumbing to the US pressure on boycotting Iran in the economic arena.

United Nations Security Council Resolution 1929

The 4th UN backed sanction on Iran was passed as the United Nations Security Council Resolution 1929, on 9 June 2010. Even before the passing of the Resolution, India had voiced its concern about the fallout of the sanctions. The Foreign Secretary had told the press, days before the sanctions without naming USA that, "We are justifiably concerned that the extra-territorial nature of certain unilateral sanctions recently imposed by individual countries, with their restrictions on investment by third countries in Iran's energy sector, can have a direct and adverse impact on Indian companies and more importantly, on our energy security and our attempts to meet the development needs of our people"².

The open demand of the US has put India in a tight spot. It is a move that will setback the efforts of the Indian government to cement its relationship with Iran. Already, a 35-year-old

Indo-Iranian shipping joint venture, Iran-o-Hind, is being placed under sanctions by the UNSC Resolution 1929. Significantly, the Iran-o-Hind, is the only Indian link included in the fresh round of sanctions. The stopping of trade by the company will have notable implications for transport of crude that India imports from Iran, and the enormity of its impact will be felt by India in time to come. The Iran-o-Hind, has a fleet of eight tankers that were used to import crude by India. With the sanctions being enforced in the days to come, India may now have to look for alternative mechanisms to transport the crude, for which it may even need to hire the services of companies or entities that have not yet come under the net of the sanctions.

The sanctions come at a time when India has been trying to work with Iran to secure its energy supplies as well as use the country as a conduit route for trade with Central Asia. What makes the situation difficult for India is that the US would not have the same political, economic, strategic or even social interests in Iran as India would have. If we take the example of only oil and gas extraction, refining and marketing from Iran, there are significant number companies (both public and private sector) that are involved in the process, that are affected with every sanction imposed on Iran.

The US involvement in the development processes of Iran are very limited. Earlier it used to supply parts for Iranian aircrafts. In 1984, the US government issued sanctions prohibiting weapons sales and any form of U.S. assistance to Iran, halting the supply of the parts. It also opposed loans to Iran from international financial institutions. Later in 1987 and then again in 1995, the U.S. tightened its stranglehold over the international economic dealing to Iran. In 1996, the United States Congress passed the Iran–Libya Sanctions Act (ILSA). Under ILSA, all foreign companies that provide investments over \$20 million for the development of petroleum resources in Iran will have imposed against them two out of seven possible penalties by the U.S.

For Europe, as for the rest of the world, the foreign policy decision of the US to ‘roll back’ the revolution in Iran, has not been a very acceptable idea. A large part of the exports of Iran, particularly of its crude oil and gas go to Europe, via Central Asia. Though Central Asia does have reserves of its own, an economically strong Iran would not only be able to ensure energy supply to Europe for a longer period of time, but it would also open up new markets and

channels for economic investments and returns. As the United States does not take any crude from Iran, it does not get affected by the partial or complete closure of hydrocarbon trade from Iran. Its energy requirements are fulfilled from the other countries in the Persian Gulf and from its domestic sources.

History of Iran-India Relations

For India, the number of variables that need to be taken into consideration for deciding its future relations with Iran, are many and varied. Historically, Iran and India have shared deep social, political and economic ties. It is documented in literature that the Islam that came to India through conquest was first brought by Mahmud of Ghazni of Persia. More importantly, one of the world's most important trans-national Islamic movements, ie., of Sufism, can trace its roots back to the Persian cultural influences in India of the 11th century. At the same time, India has been home to the Zoroastrians since the 7th century AD, when Islam took over the Persian Empire from the Sassanian dynasty, and the Parsis as a community started migrating for survival. To date they exist as a thriving community whose contribution to Indian history and development has been markedly significant. Also, the evolution of Urdu (the language of the imperial camp) traces its roots from the Presiante patois to a more indigenous contact with Hindustani linguist style. Over the last century and a half, the language has been cultivated across the country from the Indo-Gangetic belt to the south of the Deccan.

Significantly, till the British colonisation of India, the court language of India was Persian. The relations between India and the rest of the world underwent a drastic change during British colonisation. Post-colonial political and cultural ties between the Shah of Iran and India retained their strength.

1979 Revolution and the changed dynamics of relations with Iran

The Islamic Revolution of Iran in 1979, re-structured the world's equations with Iran. The hostage taking, and later the death sentence passed on Salman Rushdie, the turn-about in the rhetoric of Israel, the support of Iran to the Hezbollah in Lebanon and Hamas, and the Iran-Iraq

war have all gone a long way in shaping Iran's relations with the world. Most of the world sees Iran as a hostile country that is resistant to change and modernity.

However, unlike most of the world, relations between Iran and India had improved after the Iranian Revolution of 1979. Between Iran and India, state level relations remained strong as Iran frequently objected to Pakistan's attempts to draft anti-India resolutions at international organizations such as the OIC and the Human Rights Commission.³ India welcomed Iran's inclusion as an observer state in the SAARC regional organization. At regional political and strategic levels, in the 1990s, both India and Iran extensively supported the Afghan Northern Alliance against the Taliban regime, and relations between the two remained steadily progressive.

At the people to people level too, Iran has managed to retain its historical links with India. The Shiite community still looks to Iran for its spiritual and temporal leadership.

Iran-Pakistan Relations and its impact on Iran-India Relations:

The complex bi-lateral relations between Pakistan and Iran have acted as an important variable in the relations between Iran and India. After the 1979, the new Islamic government distanced itself the Pakistani government as the latter was a formal strategic ally of the US, and bonded better with India, that was viewed as being closer to the Soviet Union.

The relation of the two countries in Afghanistan has been more difficult. From being on the same anti-Soviet occupation team in 1979, Iran by 1991 had chosen to ally with the Northern Alliance in agreement with India, over the Mujahideen of Pakistan. Post 9/11, with Pakistan being the strategic ally of the US, the gulf between the two countries widened. They came closer again when the Taliban collapsed in 2001. With the occupation of Iraq and Afghanistan, and the declaration of Iran as being an 'axis of evil', the relations between Iran and Pakistan have taken another complicated turn. Pakistan has been openly accused of satiating Iran's nefarious nuclear ambitions.

According to a RAND Corp. analysis, there is a misguided assumption that just because Pakistan gave Iran nuclear technology that they have some kind of strategic alliance. Since then the Pakistani security establishment is wary of Tehran's relationship with India, and it suspects Iran of allowing its territory to be used by Indian-backed Baluch separatist fighters in southwestern Pakistan. Tehran, for its part, has repeatedly complained to Islamabad about cross-border attacks mounted by Jundullah, a shadowy Baluch militant group that uses Pakistani Baluchistan as a staging ground for attacks inside Iran.⁴ There is a strong apprehension that history may repeat itself with both countries again funding proxy wars between Shias and Sunnis and fuelling sectarian violence in Afghanistan and South Asia.

The India factor in the Iran-Pakistan relations remains a complex. Though Pakistan is dependent on Iran for its energy requirements, it has not been able to follow through its proposal of establishing the Iran-Pakistan-India pipeline. As Pakistan is unable to be the end-user for the gas, it needed India to be the end-consumer. Failing to give India any guarantees, the project has become one of the factors that has resulted in Iran viewing Pakistan as a strategic liability rather than a reliable neighbour.

Some key issues between Iran and India:

Over time, the basis for the relations between Iran and India has shifted with time from being civilisational to economic. Much of the economic relations between the two countries centers around hydrocarbon trade. India has sought to buy oil and gas from Iran to help feed its energy needs, which fuel India's rapid development. In 2008-09, Iranian oil accounted for nearly 16.5% of India's crude oil imports. Indian oil imports from Iran increased by 9.5% in 2008-09 due to which Iran emerged as India's second largest oil supplier. About 40% of the refined oil consumed by Iran is imported from India. In June 2009, Indian oil companies announced their plan to invest US\$5 billion in developing an Iranian gas field in the Persian Gulf.⁵

- a) Iran and India are aware of the need to work together to stabilize the disorder in Afghanistan. Both countries are opposed to the Western idea of dividing the Taliban between good and bad Taliban, an issue that came up at the London Conference in

January 2010. In February 2010, Iranian Ambassador to India Seyed Mehdi Nabizadeh, echoed the concerns of India's Foreign Minister, SM Krishna when said, "Our experience is not to believe in the 'good-and-bad' Taliban theory. Taliban is Taliban. Extremists should not be part of any government in Kabul."⁶ He cautioned that the return of the Taliban would further deteriorate regional security, and advocated a regional approach involving India to address the Afghan issue, saying that Tehran, like New Delhi, has a large stake in Afghanistan stability.

- b) The IPI (India-Pakistan-Iran) gas pipeline deal, that has been stalled many times, is another issue that both countries are keen on addressing. The ambitious deal that could have catered to about 18% of India's energy needs according to estimates by energy analysts, has allegedly been shelved as India favoured an Indo-US civilian nuclear agreement for energy security. Though the link between the two deals has never been established, the hesitation from the Indian side has been marked, giving room for speculations and rumours to take root.

As it runs out of time and options, Iran is looking to China as a possible end consumer of the Iran-Pakistan pipeline. Keen to push the sales of its gas and to ensure supplies to India, Tehran offered to include a specific provision in the gas sale and purchase agreement which would enable it to deny gas to Pakistan in the event that Pakistan tried to halt deliveries to India. Officials in New Delhi, however, are concerned that Islamabad will not be able to extend the kind of security needed to ensure the supplies, given the free play that terror groups continue to enjoy in Pakistan. Of the other issues that are slowing the IPI, the main one is price. Iran has reportedly raised the price of the gas by 20%. Under Iran's new terms, if crude stays under \$50 per barrel, the gas to be shipped to India could cost \$5.90 per MMBtu at the Iran-Pakistan border. At that price, the gas would be very costly for India. And on top of that price, India would also need to shell out transit and transportation fees to Pakistan, which is continuing price negotiations with Iran on the Iran-Pakistan stretch of the pipeline. The deal, though ideal on paper, would be difficult to implement due to the strategic, economic and political apprehensions of India.⁷

- c) Another area of co-operation that is in danger of remaining un-resolved is the close strategic co-operation between the two countries is resulting in the development of the Charbahar port in Iran. Situated on the Makran Coast of the Sistan and Baluchestan province of Iran, it is officially designated as a Free Trade and Industrial Zone by the Iranian government. India is assisting in developing the port that will give it access to the oil and gas resources in Iran and the Central Asian states. Charbahar is seen as a project by the Indian government as a response to the challenge thrown by the Chinese, who are building the Gwadar Port in Pakistani Baluchistan. Iran plans to use Chabahar for trans-shipment to Afghanistan and Central Asia, while keeping the port of Bandar Abbas as a major hub mainly for trade with Russia and Europe.
- d) The main point of difference between Iran and India, is India's stance on allowing Iran to develop a nuclear weapons capability. Despite close relations and convergence of interests with Iran, India voted against Iran in the International Atomic Energy Agency in 2005, which took Iran by surprise. Though India has stated that it supports Iran's nuclear technology development for the peaceful purposes, it believes that Iran should comply with the restrictions of the Non-Proliferation Treaty as it is a signatory to it. The vote remained a contentious issue between Iran and India for some time, but regular dialogue has helped in not letting it remain one.

In trying to cope with its gradual economic and political isolation, Iran has placed a significant premium on the Indo-Iran relations⁸. It sees India as an emerging and growing power. It is aware about the limitations that India would face, but that has not stopped it from officially handing over a proposal inviting Indian investment to build the strategically important Chabahar port. While this project is not affected by sanctions, it is believed that the sanctions will inhibit future cooperation in some measure or the other. So while India may have signed a fresh air services agreement with Iran, the fact is that no Indian carrier has plans to operate to Iran.

The relationship between Iran and India has been chequered. With the new wave of sanctions being imposed on Iran, the relations between the two countries are likely to get more complicated. In its attempt to de-link bi-lateral relations from the global trends, India has been

focusing on civilizational and historical relations with Iran. The effort allowed it strengthen its ties and find common grounds for co-operation from cultural to economic to strategic co-operation. However, with the widening chasm between Iran and the United States, relations between India and Iran are forced to bear the brunt.

The Indian government is aware that Iran is looking for healthy bi-lateral relations with India, and healthy economic relations between the two would go a long way in helping India grow as an economic, political and regional power. It is also, however, aware of the need to work in a manner that its national interests are not harmed. It will not be easy for India to find the kind of suitable alternative channels of economic and strategic contacts with Iran. Some of the possible options for India would be to use a third country like Turkey as a transporter for its crude. Also, India may need to wait for the Chinese to take the first steps in circumventing the sanctions, before it could come to its own decisions. Also since the private sector from India has significant stakes with the Iranian hydrocarbon industry, the impact of the sanctions will be felt by them a well. Till India is able to find a stand-alone mechanism to balance its needs and limitations on Iran, it's safest bet lies in working through multilateral institutions like the UN or the EU.

** Rushda Siddiqui, Ph.D is Research Fellow at Indian Council of World Affairs, New Delhi.*

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Notes

¹ US expects India to enforce UN sanctions against Iran, *Rediff news online*, July 13, 2010
<http://news.rediff.com/report/2010/jul/13/us-expects-india-to-enforce-iran-sanctions.htm> (accessed 13 July 2010)

² New Delhi upset by Iranian sanctions, *UPI. Com*, July 6, 2010, http://www.upi.com/Science_News/Resource-Wars/2010/07/06/New-Delhi-upset-by-Iranian-sanctions/UPI-78621278425269/ (accessed 7 July 2010)

³ For Iran, the dispute in Kashmir is a bi-lateral dispute that should not be dragged into international foras, particularly a religious forum.

⁴Iran Sanctions: Why Pakistan Won't Help, 14 September 2009,
<http://www.time.com/time/world/article/0,8599,1922166,00.html#ixzz0unlJSbzM> (accessed 26 July 2010)

⁵ *India-Iran Relations and U.S. Interests*, K. Alan Kronstadt (Coordinator) and Kenneth Katzman, CRS Report for Congress, Released: August 2, 2006; and *India Sees Hurdle In U.S. Sanctions*, *WSJ online*, July 2010, <http://online.wsj.com/article/SB10001424052748703720504575376654222246856.html> (accessed 21 July 2010)

⁶ Iran endorses India's stand on Taliban, *Pakistan Observer*, 22 June 2010
<http://pakobserver.net/detailnews.asp?id=15113> ((accessed 25 June 2010)

⁷ For details see, *THE IRAN PAKISTAN-INDIA PIPELINE PROJECT: CROSS-BORDER GAS PIPELINE CHALLENGES*, A case study prepared for the International Gas Union's Gas Market Integration Task Force.

⁸ It was during his speech in the ICWA, on 17 November 2009, that Iran's Foreign Minister, Manouchehr Mottaki used the historical commonalities of Asia to advocate the need for a Unified Asian System. He felt that India could play a major role in regional stability, by taking a lead in economic bonding of the region and continue with a North South dialogue. Also, India could take on a larger re-construction role in Afghanistan as it will be more welcome in the country.