



INDIA-IRAN OIL DILEMMA POST-US PRESSURE TO CURB OIL TRADE

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The US has recently issued a diktat to all countries, including India, to stop all oil imports from Iran by November 2018. At the same time, the US has ruled out any exemption to India or to Indian oil companies from its re-imposed sanctions on Iran for carrying out any transactions with them. According to US officials, countries like India, China and Turkey will not get any waivers as it could substantially reduce pressure from the sanctions-hit Iran. This has put various petroleum refiners in Asia in a fix seeking alternative supplies as they prepare for renewed US sanctions on Iran.

India is the third largest oil consumer in the world after the US and China. After China, India is Iran's largest oil customer. India imported 27.2 million tons of crude worth \$11.1 billion in financial year 2017-2018.¹ Iran is India's third-largest oil supplier after Iraq and Saudi Arabia. India bought a record 27.2 million tons of oil from Tehran during the last financial year, which ended in March 2018. It represents a 114 percent

increase on the previous year, i.e. 2016-2017.² Due to India's meagre domestic reserves, it has been forced to import almost 80 percent of its oil from abroad.

India's apprehensions proved correct in case of imposition of stricter and more austere sanctions on Iran by the US President Donald Trump. Eventually, President Trump withdrew from the Joint Comprehensive Plan of Action (JCPOA) on May 08, 2018 citing that the Iran deal is loosely constructed to give undue benefits to Iran and making it much more powerful in the West Asian region. However, the deadline for the same was May 12, 2018. This highlights that the Trump government is going into overdrive by putting maximum pressure on Iran, which clearly indicates that America's offensive strategy is aimed at collapsing the Iranian government by imposing severe pressure on its domestic economic situation. This is likely to result in growing discontentment amongst the Iranian population due to economic and political frustrations and aggravate the internal political

situation in Iran. This step also underlines American proclivity for blaming Iran as being at the root of all West Asian problems.

These strong and uncompromising sanctions by President Trump have definitely set the stage for a risky showdown related to sanctions enforcement with China, India, and other Asian countries which are the importers of Iranian crude. In fact, the US has asked India and Japan to cut its oil trade with Iran and bring it down to zero. This declaration by the Trump administration to ask countries including India to bring their oil trade with Iran to 'zero' led to an upswing in the oil prices in the global market. This can have cataclysmic effect on the economies of developing countries which have an enhancing oil trade with Iran. Also, the sharp increase in the oil prices at a time when the US and China are already in the midst of a trade war that could result in a catastrophic effect on global oil markets.³ President Trump, expressing concern about the fluctuating oil prices in recent weeks announced on Twitter on June 30, 2018, that King Salman of Saudi Arabia "has agreed" to raise daily oil production by 2 million barrels to ease the price pinch.⁴

The messaging for India, from Washington, is loud and clear and was conveyed unambiguously by the US ambassador to the UN, Nikki Haley, during her visit to India in the last week of June 2018. She commented, "The Tehran regime is the hidden—and sometimes not-so-hidden—force behind most of the conflicts in the

region. And its aggressive ambitions reach much further abroad. Iran's pursuit of a nuclear weapon threatens us all."⁵The US has insisted that India bring down the crude oil trade with Iran to 'zero.' It was also mentioned that the 'secondary sanctions' will not be waived if India fails to comply with the sanctions and it will be denied access to the US banking system.⁶ This is a clear indication of the difficult situation arising for India in the near future and a test of India's foreign policy in the wake of mounting pressure by Washington. This mounting US pressure on India has become one of the reasons that triggered a diplomatic impasse between the two countries with the meeting between the US Secretary of State, Mike Pompeo, and External Affairs Minister Sushma Swaraj (2 plus 2 dialogue), which was slated for July 6, 2018, being postponed. The other reason was India's resistance to the US sanctions called Countering America's Adversaries through Sanctions Act (CAATSA) for buying Russian military equipment. This came after India communicated its reservations on following the US instructions regarding the sanctions on Iran, saying that New Delhi abides by the sanctions imposed by the United Nations (UN) and not those imposed by any other country.

At the same time, India is searching for ways for the Rupee-Rial arrangement that was utilised as a noteworthy instrument to purchase oil from Iran before sanctions were lifted against it in 2015. However, this system is still dynamic;

its significance has gone downhill. Under this instrument, India used to pay in euros to clear 55 percent of its duty through Turkey's Halkbank. The rest of the 45 percent of instalment was transmitted in rupees in accounts of Iranian oil organisations held with the UCO Bank.⁷ However, this step is aimed to boost investment in Iran and facilitate business through Chabahar. It appears this system is likely to be for non-oil products. The details of the escrow account⁸ are being worked out for the same. The US media, however, is indicating that it is softening its stand and "will allow reduced oil flows in certain cases."⁹

In the wake of the US pressure, there is a need for India to craft its policy very carefully so as to protect its interests in Iran. Apart from the robust oil trade between India and Iran, India is also developing the Chabahar Port in Iran. This recent *diktat* by the US has the ability to not only affect our oil trade but the Chabahar deal with Iran also. With India's improving bilateral relations with both Iran and the US, New Delhi needs to devise prudent yet effective policies to safeguard its broad interests.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

¹ Ronak D. Desai, "With U.S. Withdrawal from the Iran Deal, Expect India-Iran Oil Trade to Take a Hit", *Forbes*, June 11, 2018, <https://www.forbes.com/sites/ronakdesai/2018/06/11/>

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² "India-Iran Drop Dollar in Oil Trade," *Financial Tribune*, June 02, 2018, <https://financialtribune.com/articles/energy/87503/iran-india-drop-dollar-in-oil-trade>. Accessed on July 04, 2018.

³ Suzanne Maloney, "Trump Tightens Screws on Iran's Oil," *Brookings*, June 29, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/06/29/trump-tightens-the-screws-on-irans-oil/>. Accessed on July 04, 2018.

⁴ Gardiner Harris, "U.S. Softens Demand That Countries Stop All Iran Oil Imports", *The New York Times*, July 02, 2018, <https://www.nytimes.com/2018/07/02/world/middleeast/us-iran-oil-imports-sanctions-.html>. Accessed on July 09, 2018.

⁵ Smita Sharma, "India under US pressure to stop importing oil from Iran," *The Tribune*, June 29, 2018, <http://www.tribuneindia.com/news/business/india-under-us-pressure-to-stop-importing-oil-from-iran/612096.html>. Accessed on July 04, 2018.

⁶ Esfandyar Batmanghelidj & Axel Hellman, "Europe, Iran and Economic Sovereignty: A New Banking Architecture in Response to U.S. Sanctions", June 2018, <https://www.bourseandbazaar.com/s/gxl16p3cek5qggsyh7x1a7kyv4uu9n>. Accessed on July 09, 2018.

⁷ Jayanth Jacob, "India-US to hold talks on sanctions against Iran oil imports", *The Hindustan Times*, July 04, 2018, <https://www.hindustantimes.com/india-news/india-us-to-hold-talks-on-sanctions-against-iran-oil-imports/story-qtne18QuT80cwdsmHeCcj0.html>. Accessed on July 09, 2018.

⁸ Escrow Account-An escrow account is a temporary pass through account held by a third party during the process of a transaction between two parties. This is a temporary account as it operates until the completion of a transaction process, which is implemented after all the conditions between the buyer and seller are settled. Read more at: <https://economictimes.indiatimes.com/definition/escrow-account>. Accessed on July 09, 2018.

⁹ N. 4.