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India seeks exemption from Iran sanctions

By

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A number of state-run oil giants like Oil and Natural Gas Commission (ONGC), Indian Oil Corporation (IOC) and ONGC-Videsh Limited (OVL), have requested the Indian government to seek exemption from possible Iran-related sanctions which might be imposed on them by the US. The issue is expected to be taken up during the upcoming visit of US President Barack Obama to India in early November.¹

The Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA) was signed by President Obama in July 2010 which further tightens sanctions against Iran over differences regarding the latter's nuclear programme. The new act expands the scope of the 1996 Iran Sanctions Act (ISA) by penalizing foreign companies that assist Iran's energy sector, ban foreign companies from the US government procurement contracts if they provide Iran with technology used to restrict the free flow of information and provide a legal framework for U.S. states, local governments and other investors to divest their portfolios of foreign companies involved in Iran's

¹ 'Iran deal: ONGC Videsh wants sanctions waiver', *The Hindu Business Line*, 4 October 2010.
<http://www.thehindubusinessline.com/2010/10/04/stories/2010100451860100.htm>

energy sector.² Some European oil companies have already agreed to abandon their business ties with Iran to avoid being penalised by the US.³

The risk of sanctions against Indian companies has been looming over the companies which have energy links with Iran. According to the Iran Sanctions Act (ISA), sanctions can be imposed against 'persons, including foreign firms, who invest more than \$20 million in Iran's energy sector in any 12-month period.'⁴ The Indian government has already asked these oil companies to seek legal opinion before signing any deals with Iranian companies so as to assess the impact the sanctions might have on their investments. This followed after the US released in May this year a list of 41 international companies which have energy ties with Iran; this included five India companies, namely, ONGC, IOC, OVL, Oil India Limited (OIL) and Petronet LNG Ltd.⁵

At present, the sanctions limit of \$20 million investment has not been breached by none of the Indian companies. This might however not be the case if Iran awards contracts to develop the field or if the Indian firms made any investment in the South Pars fields.⁶

Along with OIC and OIL, the OVL is at present exploring opportunities in the Farsi block after the Iranian government allowed exploitation of the area in September 2008. While the OIL has 20 percent stake and the other two companies have 40 percent stake each in the Farzad-B area.⁷ In other words, till now the Indian companies have only signed agreements for Farsi and South Pars fields without having put in too much investment.⁸

The Farsi block is estimated to have reserves of up to 21.68 trillion cubic feet (tcf) out of which around 12.8 tcf are recoverable. Developing the gas field, together with the construction of a

²'Congress Sends Obama New Sanctions Against Iran', *The Huffington Post*, 25 October 2010.
http://www.huffingtonpost.com/2010/06/24/congress-iran-sanctions-obama_n_625019.html

³'Major European Energy Firms Cutting Iran Ties', *Radio Free Europe Radio Liberty*, 1 October 2010.
http://www.rferl.org/content/Major_European_Energy_Firms_Cutting_Iran_Ties/2173310.html

⁴'US names Indian oil, gas firms doing business with Iran', *Hindustan Times*, 14 May 2010.
<http://www.hindustantimes.com/US-names-Indian-oil-gas-firms-doing-business-with-Iran/Article1-543661.aspx>

⁵'IOC, ONGC Face US Sanctions For Business with Iran', *Outlook*, 14 May 2010.
<http://news.outlookindia.com/item.aspx?682045>

⁶'US names Indian oil, gas firms doing business with Iran', *Hindustan Times*, 14 May 2010.
<http://www.hindustantimes.com/US-names-Indian-oil-gas-firms-doing-business-with-Iran/Article1-543661.aspx>

⁷'Whiff of hope for gas', *The Telegraph*, 6 October 2010.
http://www.telegraphindia.com/1101006/jsp/business/story_13023838.jsp

⁸'IOC, ONGC Face US Sanctions For Business with Iran', *Outlook*, 14 May 2010.
<http://news.outlookindia.com/item.aspx?682045>

liquefied natural gas terminal to transport the gas, is estimated to require an investment of \$8-9 billion. The investment for exploration and production work is estimated at around \$5.5 billion.⁹

But even though things have not reached a critical point, concerns are already being expressed in several quarters in India about the impact of new round of US sanctions on Indian oil companies. Foreign Secretary Nirupama Rao has already voiced India's unease about '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.'¹⁰

Indian officials are now pinning their hopes on a provision in US sanctions whereby energy deficient countries could seek exemption for projects that are already underway.¹¹ India wants to build a case based by stressing that in the last financial year alone it imported 21 million tons of oil from Iran. With the Iran Pakistan India pipeline already in the cold storage due to differences over pricing and security issues, India does not want to further jeopardize its energy ties with Iran and lose out on opportunities in the hydrocarbon sector there.

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⁹ 'Iran deal: ONGC Videsh wants sanctions waiver', *The Hindu Business Line*, 4 October 2010. <http://www.thehindubusinessline.com/2010/10/04/stories/2010100451860100.htm>

¹⁰ 'India Sees Hurdle In U.S. Sanctions', *The Wall Street Journal*, 20 July 2010. <http://online.wsj.com/article/SB1000142405274870372050457537665422246856.html>

¹¹ 'Iran deal: ONGC Videsh wants sanctions waiver', *The Hindu Business Line*, 4 October 2010. <http://www.thehindubusinessline.com/2010/10/04/stories/2010100451860100.htm>