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Indo-Iranian Oil Payment Row

India has decided to use multiple currencies, including the Rupee, to pay for the crude oil imported from Iran. This follows after the Hamburg based Europäisch-Iranische Handelsbank AG (EIH Bank) refused to accept money from India for transfer to the Middle Eastern nation.¹ The Reserve Bank of India (RBI), which had earlier opposed the payment in Rupee has given its go ahead. According to the latest plan, the National Iranian Oil Co (NIOC) will open an account with Indian banks for the purpose. The need to find this new mechanism arose when on 23 December 2010 the RBI disallowed payment for imported oil and gas from Iran through the Asian Clearing Union (ACU).

Although EIH, which is owned by Iran, was chosen for the task in February, it is a banned entity in the US and Washington persuaded Germany to stop payments.² Earlier in February, the Central Bank of Germany, Deutsche Bundesbank (DBB) had given its go ahead to EIH and cleared NIOC for receiving Euro payments from India for its imports as long as the Indian government could certify they are for crude oil purchases (which is not on US sanctions' list)³ but this was not enough to convince the US.

Under the new plan, NIOC can use the money to purchase non-strategic items like railway imports and buying commodities. It cannot use the money to invest in India or buy shares or

¹ India to use rupee, other currencies to pay for oil imported from Iran, *The Economic Times*, 13 May 2011.

http://articles.economictimes.indiatimes.com/2011-05-12/news/29536104_1_payments-for-iranian-oil-oil-imports-euro-payments

² India May Use Dubai or Turkey for Paying for Iran Crude, *Outlook*, 27 April 2011.

<http://news.outlookindia.com/item.aspx?720197>

³ India, Iran Settle Crude Oil Payment Issue, *The Wall Street Journal*, 3 February 2011.

http://online.wsj.com/article/SB10001424052748703652104576122010564043614.html?mod=googlenews_wsj

companies, but the same can be used for buying government securities. The finance ministry is preparing a list of what Iran can do with the money and what it cannot.⁴

What is the Issue?

On 23 December 2010, RBI declared that Indian firms will no longer be able to use the ACU to make payments for oil and gas imports. The ACU, based in the Iranian capital Tehran, settles trade transactions between nine countries including Bangladesh, Bhutan, India, Iran, Nepal, Pakistan, Maldives, Myanmar and Sri Lanka⁵ where the countries make the payments in either Dollars or Euro. After the US imposed a series of sanctions on Iran in retaliation for its controversial nuclear programme, the trade currency in the ACU was switched from Dollar to Euro to continue the payment for imported crude oil from Iran. However, with the European Central Bank (ECB) asking the RBI in October 2010 to certify that the Euro was being used to import only those products that were not on the US sanctions list⁶, there has been a question mark regarding the conduct of trade transactions with this currency as well.

It may be noted that in ACU (a system established in 1975), the final payment is made on a gross basis and not individual basis, making it difficult for the RBI to give a certificate for each deal. It was this fact that led the RBI to issue the order asking for transactions to be conducted outside the ACU. The Indian government had then decided to send its delegation to Tehran on 14 January 2011 to figure out a way to make the transactions go through. Financial Services Secretary R. Gopalan had hoped that the delegation would be able to find ‘some currency (other than the dollar) in which payments could be made (for Iranian oil).’⁷ However, the discussion could not yield any concrete result.⁸ In the attempts to resolve the crisis, India and Iran had been identifying banks which are not on the US sanctions list to route payments to National Iranian Oil Co (NIOC).

In its order, the RBI clearly stated that ‘In view of the difficulties being experienced by importers/exporters in payments to/receipts from Iran... it has been decided that all eligible current account transactions including trade transactions with Iran should be settled in any

⁴ India to use rupee, other currencies to pay for oil imported from Iran, *The Economic Times*, 13 May 2011. http://articles.economictimes.indiatimes.com/2011-05-12/news/29536104_1_payments-for-iranian-oil-oil-imports-euro-payments

⁵ Indian Govt decision on Iran payments attacked, *Asian Tribune*, 1 January 2011. <http://www.asiantribune.com/news/2010/12/31/indian-govt-decision-iran-payments-attacked>

⁶ India, Iran to discuss oil payment crisis, *The Hindu*, 31 December 2010. <http://www.thehindu.com/news/national/article1019039.ece>

⁷ India, Iran looking at euro, yen to resolve crude payments row, *The Economic Times*, 11 January 2011. <http://economictimes.indiatimes.com/news/economy/foreign-trade/india-iran-looking-at-euro-yen-to-resolve-crude-payments-row/articleshow/7260532.cms>

⁸ India likely to pay for Iran oil import in Re, *The Indian Express*, 20 January 2011. <http://www.indianexpress.com/news/india-likely-to-pay-for-iran-oil-import-in-re/739791/0>

permitted currency outside the ACU mechanism until further notice.’⁹ Iran had threatened that it would not sell oil under the new set of rules set out by the chief bank in India. The move in India took place ostensibly after there were some problems with regard to securing payments by importers/exporters Iran’¹⁰ which the Indian government has since described as ‘technical issues.’

Iran had earlier decided to sell crude oil to India on credit for the month of January 2011 while the Reserve Bank tried to find a bank not on US sanctions list to route payment to the Iran. This search finally ended with EIH in February which is not subject to sanctions by the UN or the EU.¹¹ In January, a team from RBI had met officials from Deutsche Bundesbank to find an alternative mode of payment with the Oil Secretary affirming that...‘There is no stoppage of oil supplies. They (Iran) will continue to sell crude based on guarantee from companies to make payments in future...we are hopeful that a specific routing of funds (for oil imports from Iran) will be finalized in next few days.’¹²

Iran is the second largest exporter of crude oil to India, and is only behind Saudi Arabia. India imported 21.3 million tonnes from Iran in 2009-10 and the imports are expected to be 18 million tonnes 2010-11. ‘Mangalore Refinery and Petrochemicals Limited (MRPL) is the biggest importer of Iranian crude, with a contract for 7.1 million tonnes. Essar Oil imports roughly 5 million tonnes a year, Indian Oil Corporation 3.5 million tonnes and Hindustan Petroleum Corporation Limited about 3 million tonnes.’¹³ In the absence of a mutually acceptable payment mechanism, India might not have been in a position to import 10 million barrels of crude oil from Iran in January.¹⁴

With the refusal of the EIH to route its payments to Iran for crude oil, reportedly under US pressure,¹⁵ the accusations of the latter exerting influence on different players working with Iran have only grown stronger. Already, since the RBI announced its decision, the Indian government has been accused of coming under US pressure while making this decision. There have been

⁹ ‘Indian Cbank Settle all account a/c deals with Iran outside ACU’, Reuters, 27 December 2010, <http://www.reuters.com/article/2010/12/27/india-cbank-iran-idUSMBI00048620101227>

¹⁰ US welcomes move to ban use of ACU for gas, oil imports, *The Economic Times*, 30 December 2010. <http://economictimes.indiatimes.com/news/politics/nation/us-welcomes-move-to-ban-use-of-acu-for-gas-oil-imports/articleshow/7187611.cms>

¹¹ India, Iran Settle Crude Oil Payment Issue, *The Wall Street Journal*, 3 February 2011. http://online.wsj.com/article/SB10001424052748703652104576122010564043614.html?mod=googlenews_wsj

¹² RBI team to visit Germany to explore Iran crude oil payments, *The Economic Times*, 19 January 2011. <http://economictimes.indiatimes.com/news/economy/foreign-trade/rbi-team-to-visit-germany-to-explore-iran-crude-oil-payments/articleshow/7318772.cms>

¹³ India, Iran to discuss oil payment crisis, *The Hindu*, 31 December 2010. <http://www.thehindu.com/news/national/article1019039.ece>

¹⁴ Formula for oil payments being worked out, *The Hindu*, 1 January 2011. <http://www.thehindu.com/news/article1023322.ece>

¹⁵ India May Use Dubai or Turkey for Paying for Iran Crude, *Outlook*, 27 April 2011. <http://news.outlookindia.com/item.aspx?720197>

charges that the move, taken barely months after the visit of US President Barack Obama, would restrict the manoeuvring capability Iran had around US sanctions. It has also been reported that the US tracks the destination of any payment made to Iran through monitoring the systems used by international banks. But if the central banks of India and Iran are standing in the middle of deals, 'it may be impossible to trace the money from start to finish, and that could enable blacklisted Iranian entities to do international trade.'¹⁶

Increased credence to such accusations was also given when *The Wall Street Journal* quoted Stuart Levey, first Under Secretary for Terrorism and Financial Intelligence in the US government, as saying that 'This (that is, the action to disallow payments through the ACU) is a significant action by India.'¹⁷ The ACU has been an important trade link for Iran with data showing that 'Iran's trade through the clearinghouse rose to US\$ 12.2 billion in the first 11 months of 2010, from US\$ 7.8 billion in the same period in 2009. Of the more than US\$ 900 million owed Tehran through the monetary body during November 2010, nearly US\$ 800 million comes from India.'¹⁸ However, for its part India has denied any such accusations with the Ministry of External Affairs' spokesperson Vishnu Prakash stating: 'This is a technical issue and the Reserve Bank of India is seized of the matter.'¹⁹

Compiled by Nivedita Kapoor

Nivedita Kapoor is a journalist with the Free Press Newspaper in Indore. Email: kapoor.nivedita@gmail.com

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¹⁶ India Joins U.S. Effort to Stifle Iran Trade, *The Wall Street Journal*, 29 December 2010.

<http://online.wsj.com/article/SB10001424052970203513204576046893652486616.html>

¹⁷ US welcomes move to ban use of ACU for gas, oil imports, *The Economic Times*, 30 December 2010.

<http://economictimes.indiatimes.com/news/politics/nation/us-welcomes-move-to-ban-use-of-acu-for-gas-oil-imports/articleshow/7187611.cms>

¹⁸ India Joins U.S. Effort to Stifle Iran Trade, *The Wall Street Journal*, 29 December 2010.

<http://online.wsj.com/article/SB10001424052970203513204576046893652486616.html>

¹⁹ 'No pressure regarding Iran oil payment', *Hindustan Times*, 1 January 2011.

<http://www.hindustantimes.com/News-Feed/newdelhi/No-pressure-regarding-Iran-oil-payment/Article1-645110.aspx>