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India Defies Oil Sanctions on Iran

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India's position on oil sanctions against Iran has become a riddle that defies conventional explanations. The odds are heavily loaded against its ability to maintain energy ties with the Islamic Republic, yet there are signs that India seeks to improve economic ties with Tehran. The explanation for this is that American inability to provide effective leadership in the Middle East has resulted in India's readiness to defy the oil sanctions against Iran. India seeks to assert an independent foreign policy.

In the past few years, the US-led economic sanctions against Iran have significantly affected Indo-Iranian energy ties. The much-hyped Iran-Pakistan-India gas pipeline remained dormant for years. Unable to tolerate India's delay tactics, the other two countries entered into a bilateral deal with an option to include China. The 25-year LNG deal, signed in January 2005, is now stuck over pricing and technological problems.

Repeated pressures from the US have drastically curtailed India's export of petroleum products to Iran, which during 2008-09 stood at over one billion dollars. Commercial crude oil imports to India from Iran have of late become problematic as well. Under pressures from the US Department of Treasury in December 2010, the Reserve Bank of India cancelled the Asian Clearing Union (ACU) arrangement for oil payments to Iran. New Delhi was left scrambling for alternate payment routes, but its arrangements with Germany, Turkey and the UAE proved futile as US influence prevented them from complying with India's requests.

Since then, India and Iran have settled for a Rupee payment arrangement whereby the former settles part of its oil bill by making the payment through Indian currency. The lesser known state-owned Kolkata-based UCO Bank, which has little exposure to the US or EU, was selected to handle the payment. This arrangement only covers 45 percent of the oil bill as India's trade is heavily skewed in favour of Iran. For example, in 2010-11, its exports to Iran stood at \$2.7 billion, whereas its imports totalled \$10.9 billion worth of goods.

The pursuit of energy security through Tehran has put New Delhi on a slippery slope, as prevailing international conditions have prevented India from procuring oil from Iran without facing a host of financial and political problems.

Even after accounting for a possible increase in exports to Iran due to the refusal of other countries to trade with it, India will still have to find a way to settle the remaining oil bill. This week, the Society for Worldwide Internet Financial Telecommunication (SWIFT), which handles global electronic wire transfers—including those of India—cut Iran out of its network. This creates further obstacles for India in repaying its dues. And yet, India has continued importing Iranian oil, recently ordering fresh crude supplies. Moreover, the state-owned Shipping Corporation of India has found it difficult to ship the Iranian crude oil because it could not find the necessary insurance coverage for its operation.

Considering that it has become difficult and almost impossible to settle its existing dues with Iran, why has India continued to import Iranian oil?

If anything, India's actions could be perceived as defying Western sanctions. However, India does not endorse Iran on the nuclear issue and is in fact on the same page as the rest of the international community, including the US, on this issue. Since its September 2005 decision to vote with the US at the International Atomic Energy Agency (IAEA), India has maintained that position. As Prime Minister Manmohan Singh told the Indian parliament, a nuclear Iran does not serve Indian interests.

However, while the West seeks Iranian compliance through oil sanctions, India is reluctant to follow that path. There are three possible motives for India's refusal to reduce its oil ties with Iran, despite all the difficulties. At the tactical level, the sanctions and their debilitating efforts provide an opportunity for India to benefit from the economic difficulties faced by Iran and expand its ties. At present, Indian exports to Iran make up one-fifth of its imports, and using the Rupee payment arrangement it could expand its trade ties with Tehran.

More importantly, it is also a reflection of India's difficulties in finding alternate supplies to replace the Iranian crude. There is also a technical problem as some of the older Indian refineries

are tailored to Iranian crude and could not be operated with alternate crude supplies. Moreover, the West has demanded Indian compliance, not cooperation, and there are no indications that India was consulted or that New Delhi's interests were taken into consideration when oil sanctions were imposed on Iran.

However, there appears to be a larger strategy behind the Indian defiance. While the US continues to be the most powerful country in the world, its influence in the Middle East has eroded in recent years. Two costly wars, a stalled Middle East peace process, and popular protests in different Arab countries have eroded America's regional influence and relevance. The Obama administration has lost considerable respect in the region over the "Arab Spring" in particular. The protesting public was upset over Washington's slow response, while the beleaguered rulers were upset because despite their loyalty, the US abandoned its "friends" in their hour of need.

This American inability to provide effective leadership in the Middle East has resulted in India's readiness to defy the oil sanctions against Iran. While this defiance has brought other difficulties, it is a price worth paying to assert its independent foreign policy making. This defiance could also mark the beginning of a new phase in India's response to uncoordinated American moves in the Middle East. That is, if you want New Delhi's support, then ask for it, negotiate, and above all accommodate its interests – but unilateral tactics are unacceptable.

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