

The Lifting of Sanctions on Iran: Implications for India-Iran Economic and Commercial Ties

Iran's extra oil production can decrease oil price in global markets, which can be considered as relief for India's economy. However, by terminating the Rupee-based payment mechanism, India's products do not possess their exclusive market in Iran. Development project of Farzad-B gas field, investment in Chabahar port and an undersea gas pipeline can be seen as the potential prospects of mutual cooperation.

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“We never forget our friend who has been with us during a difficult time;” Javad Zarif, Iran's Foreign Minister, commented on Indo-Iran economic and commercial relations after the lifting of the sanctions during his visit to New Delhi in August 2015. Is it only a diplomatic, positive gesture, or does it signify the important position of India for Iran in the post-nuclear deal era? Moreover,

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what are the implications of the lifting of sanctions on Iran for Indo-Iran economic and commercial relations in the short, mid and long terms?

For addressing these questions, the characteristics of Indo-Iranian commercial and economic relations after 2010 should be considered. Since the first decade of the twenty-first century, Iran-India bilateral trade has increased; Iranian hydrocarbon exports to India constitute most of this trade. Moreover, Indian companies showed their interest to invest in Iran's oil and gas sector; for instance, an Indian consortium reached an initial agreement to develop 'Farzad-B' gas field in 2008. Not surprisingly, imposing the sanctions on Iran transformed the usual commercial relations to a more complicated one after 2010. This relationship can be described as 'Janus-faced', implying two sharply contrasting aspects of this relations. India never cut its commercial relations and trade with Iran, and has remained as one of the major importers of Iran's oil since 2011; nevertheless, Iran's share in India's oil market decreased, and instead of payment by currencies such U.S. dollars or Euro, India paid Iran's money by Indian Rupees. Since Iran's financial market and Banks had been excluded from the international financial system, Iran could not transfer its income from India. Major banks could neither transfer Iran's petrodollars nor could Iran use U.S. dollars in the international trade. Consequently, India –within a Rupee based payment mechanism - purchased Iranian oil with the local currency, and Iran deposited the money in an Indian state-run bank account. Iran could use these funds to buy Indian goods, including rice, wheat, pharmaceutical products and auto parts. This opportunity increased India's export to Iran; therefore, India emerged as one of the major exporters to Iran along with China, U.A.E, and Turkey. On the other hand, Iranian officials were discontented about this limitations and imbalance; especially, after recent falling of value of Indian Rupee against U.S. dollar, decreasing the value of Iran's savings. Furthermore, while Iran became more dependent on the imported consumer products from India, Indian companies withdrew from the development projects in Iran's oil and gas sector.

Moreover, Iran, Pakistan, and India (IPI) gas pipeline did not materialize, and the alternative project, the TAPI, with the cooperation of Turkmenistan, Afghanistan, Pakistan, and India has begun as the main way for supplying India's need for energy.

Therefore, the lifting of sanctions on Iran has significant implications for the duality and complexity in the Iran-India bilateral trade for Indo-Iran economic and commercial relations.

More and Cheaper Oil for India

After implementation of Joint Comprehensive Plan of Action (JCPOA), not only six major powers bring to an end all nuclear-related economic sanctions on Iran, including an embargo on buying Iranian crude oil, but also, terminate restrictions on Iranian banks, trade, shipping, and insurance.

Hence, Iran is able to export as much crude oil to the world as it can. Iran seeks to reclaim its share in the global market, threatened by its rival Saudi Arabia. Iran has declared that it will add 500,000 barrels of crude oil to its daily export of 1.1 million immediately, and a further 500,000 thereafter. Iran was India's second biggest supplier of crude oil after Saudi Arabia till 2010-11, and provided 12% of India's oil needs; nevertheless, the sanctions downgraded it to the seventh largest supplier. Iranian officials announced that India is the main destination for Iran's extra production in 2016.

As observers predict, lifting of the sanctions on Iran leads to lower oil prices in the global market, boosting India's rate of economic growth.

However, India has to face up to the new rule of the game with Iran. Iranian officials have been trying to change the India's payment method. Although India recently suggested to exempt payments to Iran from 'hefty withholding tax' if Iran accepts to receive full payment for oil in INR, Tehran has rejected receiving the outstanding amount of crude oil transactions with New Delhi in INR. After the lifting of the sanctions, Iran's priority is to trade through major currencies such as USD or Euro; therefore, it seems that India, sooner or later, should resume the usual payment through USD or Euro.

Boosting Investment in the Oil and Gas Sector

Iran's crude oil export to India is not the only field of bilateral cooperation, affected by the removal of economic sanctions against Iran. The lifting of sanctions on Iran enables India to invest again in Iran's vast gas sector, the second-largest natural gas reserves in the world.

Indian companies already showed their keen interest to invest in Iran's oil and gas sector. Nevertheless, the sanctions- forbidding any investment in Iran's gas and oil sector above USD 20 million- were a major obstacle to more cooperation. For Instance, *ONGC Videsh Limited* (OVL) involved in discovery of new gas resources in the Farsi gas field in 2008, nonetheless, because of the economic sanctions on Iran, the company did not invest for development of 'Farzad B' project, which has been estimated to possess 21.68 trillion cubic feet (tcf) of gas in place, of which 12.8 tcf is recoverable. Although the ONGC Videsh proposed a revised development plan for the field in 2010-, it failed to fulfill its promises for investment when the U.S. and the E.U. imposed sanctions on Iran.

After the election of Rouhani as the new President in 2013, Iran's new Oil Minister, Bijan Zanganeh, declared that Iran has decided to withdraw "its offer on production sharing contract (PSC) for the development of the country's Farzad B gas field to Indian contractors." Moreover, Iran put Farzad B field on the list of blocks it wants to auction in future. However, after reaching a mutual understanding between Iran and E3+3 on April 2nd 2015, and agreement on the Joint Comprehensive Plan of Action (JCPOA) on June 14th, 2015, which was based on the removal of the sanctions, India tried to convince Iran to offer development of Farzad B field to the Indian consortium again without a tender bid. Indian top officials such as Sushma Swaraj, External Affairs Minister, asked Iran to finalize the procedures for India's participation in the Farzad-B gas field in the Persian Gulf.

Finally, one month before the implementation of JCPOA, Iran's oil ministry officials asked Indian consortium, led by the OVL, to submit a new development plan for Farzad B gas field. Tehran expects to receive a comprehensive proposal, including plans for swapping the Farzad B's gas with

natural gas produced by other fields, and construction of a pipeline to transfer the surplus gas of the field to India.

Iranian officials are interested in a potential undersea pipeline project, known as the Middle East to India Deepwater Pipeline (MEIDP), as an alternative to IPI pipeline, originating from Chabahar Port in southeastern Iran, passing the Sea of Oman to Omani coast, and ending at Porbandar in South Gujarat in India.

After the removal of sanctions, Iran also needs to invest in its oil refineries that are inadequate and outdated. Global oil major players from Europe and China rush to fill the gap. If India can fulfill its obligations in the Farzad-B gas field, Indian players can join the attractive race to build refining capacity in Iran.

Investment in Chabahar as an entry point to Afghanistan and Central Asia

In geopolitical terms, Iran's coastline in the Persian Gulf and the Gulf of Oman, and its geographical position at the conjunction between Afghanistan, Central Asia, and West Asia provided tremendous opportunities for India. India can access landlocked Afghanistan and Central Asia' market through Chabahar port in Southeastern Iran; that is the nearest port in the Gulf of Oman to Afghanistan. Moreover, India can bypass Pakistan to access Afghanistan through Chabahar. Remarkably, in the framework of regional rivalry, China took over Pakistan's Gwadar Port- which geographically located close to Chabahar and geopolitically has similar importance – in 2013 for forty years to make it completely functioning by the end of 2015.

Since 2003, India has sought after financing and constructing the Chabahar Port; nevertheless, the imposed sanctions against Iran were a major hurdle. Although an Indian consortium that included Ashok Leyland Project Services (ALPS), backed by the Hinduja Group, signed MOU with Iran to develop the Chabahar port, similar to Farzad B field, this project could not be operationalized, and the project was abandoned.

Iran tried to provoke India through the invitation of Chinese enterprises to participate in the development of Chabahar and projects such as the development of the rail network and key petrochemical and steel projects. Finally, Iran declared that deadline for India to decide over investing in Chabahar port is over, and Chinese companies have the privilege for investment.

In response to this threat and after the first signs of reconciliation between Iran and the West, India expressed again its interest to be engaged in Chabahar port project. Although Iranian officials rejected India's proposals initially, political considerations, as well as commercial interests, encouraged Tehran to show the green light to Delhi again.

So, before the implementation of the nuclear deal, Iran suggested India to participate in the development of the Chabahar port and the Chabahar free trade zone (FTZ). India and Iran signed an MOU to develop the Chabahar port in August 2015. The lifting of sanctions removed the most significant hurdle - U.S. pressure to prevent any FDI in Iran - for investing in Chabahar Port. Tehran and New Delhi have been negotiating terms of a contract for an Indian investment of USD 85 million to construct two berths at the Chabahar port. Moreover, in the last days of 2015, New Delhi allocated USD 150 million credit line for Iran to fund its 630-km rail project from Chabahar port to Zahedan. However, India could not meet again the deadline of January 2016 to start the project. Whereas China's President Xi Jinping's visited Tehran to finalize several economic agreements, Iran's ambassador to India, criticized New Delhi's delays and stated, "I feel private companies in India are keen to move ahead in the Chabahar port project, but the government has not shown the same level of enthusiasm in the past."

Conclusion

The implementation of the Joint Comprehensive Plan of Action (JCPOA), agreed by Iran and E3+3, ending the sanctions on Tehran, is expected to have mixed results for Indo-Iran economic and commercial relations. In the short term, the deal will likely increase crude oil supplies from Iran. India is the primary destination of Iranian oil, and Iran sought to reclaim its position as India's second oil supplier. Iran's extra oil production can decrease oil price in global markets, which can

be considered as relief for India's economy. Moreover, lifting of the sanctions will have a positive impact on other commercial relations between the two countries. After termination of restrictions on Iran's oil and gas sector, banks, trade, shipping, and insurance, India and Iran can resume their normal trading ties, and boost the trade. However, in the mid-term, by terminating the Rupee based payment mechanism, India's products do not possess their exclusive market in Iran.

After the nuclear deal, the prospect of the long-term economic cooperation between these two regional powers cannot be analyzed without considering the past. The UPA government had suspended several strategic economic projects in Iran. Not only development plan of Farzad B gas field has been abandoned since 2008, but also India did not show its keen interest to invest in the strategic port of Chabahar. Although, since the appearance of first signs of a détente between Iran and the West, the NDA government has tried to re-convince Tehran about its long-term commitment and return to Farzad B and Chabahar, Indian companies are enchained by technical talks, some remained political and legal obstacles and other difficulties that hindered their attendance in Iran. Therefore, Iranian officials have serious doubts about India's capacity to deliver projects; especially, when they compared Indian companies to their alternatives, Chinese companies. China has emerged as Iran's strategic commercial and largest trading partner. While China like India faced up to the restrictions for commercial relations with Iran during past years, it had more room to maneuver to sustain its strategic interests in Iran. Unlike India, China continued to invest in Iran's infrastructures like road and rail system. During the last seven years, Chinese companies invested massively in Iran and occupied the space vacated by Western companies that left the country after the sanctions. Recently, Beijing expressed its will to invest and develop Chabahar port in the framework of twenty-five years strategic partnership with Iran.

In conclusion, because of the delays, hesitations, and cautions, India might have missed out an opportunity to build a solid commercial bond with Iran. However, New Delhi's active diplomacy, reviving of development plan of Farzad B, facilitating investment in Chabahar, and mutual cooperation on the potential MEIDP can expand mutually beneficial commercial relations, and also pave the way for the expansion of broader strategic cooperation that diversifies India's energy resources and facilitate its access to Afghanistan and Central Asia.

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