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America's Withdrawal from the Iran Nuclear Deal: Implications for India

On 8 May 2018, United States (US) President Donald Trump announced his country's withdrawal from the multinational nuclear agreement with Iran, also known as the Joint Comprehensive Plan of Action. Lambasting the agreement for being "defective at its core",¹ Trump set in motion procedures to re-instate strict sanctions on Tehran. The remaining signatories of the agreement are busy trying to salvage the deal. America's unilateral decision has implications for India's geo-political interests in Iran and beyond.

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The Joint Comprehensive Plan of Action and India's Economic Interests

In 2015, the Joint Comprehensive Plan of Action (JCPOA) was signed between Iran, the five permanent members of the United Nations Security Council (UNSC),³ Germany and the European Union. The agreement aimed to restrict Iran's nuclear programme by imposing a

¹ For a full transcript of the speech, see <https://www.nytimes.com/2018/05/08/us/politics/trump-speech-iran-deal.html>.

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³ The five permanent members are China, France, Russian Federation, the United Kingdom and the United States.

number of verifiable commitments. In exchange, nuclear-related economic sanctions by the United States (US), the European Union and the UNSC were to be lifted. Since 2015, India has significantly increased its economic engagement with Iran. It is today one of Iran's main trading partners. Oil accounts for 80 per cent of India's imports from Iran. According to data from India's Ministry of Commerce and Industry, crude oil imports from Iran accounted for about 6.7 per cent of India's total oil imports in February 2014. This proportion has nearly doubled and Iran accounted for more than 10 percent of India's oil imports in February 2018.⁴ Iranian oil has been particularly lucrative for refiners in India, as the Persian Gulf nation provides 90 days of credit for purchases, at least thrice the amount of time given by other producers.

However, the bilateral economic relationship has not been without its ups and downs. In March 2017, it was reported that New Delhi was cutting Iranian oil imports over an impasse in negotiations about the rights to develop Iran's huge Farzad B natural gas field.⁵ Although the disagreement was supposedly resolved, the Farzad B gas field, discovered by the Indian consortium, comprising ONGC Videsh, Indian Oil Corporation and Oil India ONGC, in 2002, has continued to be a point of contention in bilateral relations. With the announcement of impending US sanctions, it remains to be seen whether India's bargaining position vis-à-vis Iran has improved or worsened.

The impact of America's decision to withdraw from the nuclear deal for India's oil imports and business interests remains both imminent and unclear. Following Trump's announcement, it has been stated that companies are not allowed to strike new deals in the Iranian oil and energy sector. By August 2018, transactions in Iranian government debt or currency and purchases involving the country's automobile sector or Iranian gold and other metals must end. From November 2018 onwards, deals involving Iran's oil and energy sector, shipping and ports, and insurance services will be prohibited.⁶

⁴ Calculations based on data available on the website of the Indian Ministry of Commerce & Industry, Department of Commerce: <http://commerce-app.gov.in/meidb/default.asp>. Accessed on 15 May 2018.

⁵ "India to cut Iranian oil purchases in row over gas field", *Hindustan Times*, 31 March 2018. <https://www.hindustantimes.com/business-news/india-to-cut-iranian-oil-purchases-in-row-over-gas-field/story-A4NlzKWHbXPJAdQgxtlp5H.html>. Accessed on 15 May 2018.

⁶ See the List of Frequently Asked Questions issued on 8 May 2018 by the US Department of the Treasury. https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_winddown_faqs.pdf. Accessed on 16 May 2018.

Uncertainty however, stems from the question of what the other JCPOA signatories decide to do next. Hardliners inside Iran reacted vehemently, criticising their own politicians for having believed in a deal with foreigners who could not be trusted. At the same time, Iranian President Hassan Rouhani reiterated that Tehran would remain committed to its 2015 nuclear deal if its interests can be protected. In many ways, this hinges on whether or not the European leaders have the political will and means to uphold the accord, sans the US.

This is also of particular importance to India for it has been paying its oil dues to Iran in euros and uses European banking channels. If the European leaders decide to follow and give in to the US' directive to comply with their regime of sanctions, this will have ramifications for maritime trade with Iran. Ship insurance was a critical hurdle when sanctions were previously imposed on Iran. Following the US imposed sanctions in 2012, European measures, subsequently, restricted the London-based International Group of P & I Clubs, an umbrella organisation whose members cover 90 per cent of the global tanker fleet against risks, including oil spills. This significantly impacted the state-run Shipping Corporation of India, the largest tanker owner in India, which relied on European insurers.

Two more signatories of the JCPOA, Russia and China, have indicated they will honour the deal despite the US pull-out. On 13 May 2018, Iranian Foreign Minister Mohammad Javad Zarif visited Beijing, then Moscow, before arriving in Brussels on a diplomatic tour aimed at saving the nuclear deal. This draws attention to the larger geopolitical contest underway involving great power politics, with important implications for India's own ambitions to project its role as a regional power.

India's Geo-political Gambit in Iran and the Region

In assessing the future ahead, India's Economic Survey of 2017-18, which was released in January 2018, noted the "usual geopolitical and geo-economic risks". These were listed as "war in the Korean peninsula; political upheaval in the Middle East; aggressive output cuts by Saudi Arabia (and Russia) in advance of the planned listing of the Saudi Arabian oil company, Aramco, which could force oil prices even higher; a final reckoning from China's unprecedented credit surge in the form of capital controls, slowdown in growth, and a sharply

depreciating currency with consequences for the global economy.”⁷ Although not explicitly mentioned, it is clear that political upheaval in the Middle East is linked to the issue of Iran’s growing role in the conflicts of the neighbourhood. That Indian policy-makers are incorporating geo-political and geo-economic risks into decision-making is confirmed by the country’s active maritime, bilateral, multilateral initiatives and energy diplomacy across the region. This includes an effort to improve relations with a number of the oil-producing nations in the Gulf. For instance, on 14 May 2018, India’s Oil Minister Dharmendra Pradhan visited the United Arab Emirates (UAE) to meet Sultan Ahmed Al Jaber, UAE Minister of State, and the Abu Dhabi National Oil Company Chief Executive Officer, to jointly witness the loading of the first cargo between ADNOC and Indian Strategic Petroleum Reserves Limited at the ADNOC headquarters in Abu Dhabi.⁸

With India having committed US\$500 million (S\$671.4 million) to Iran’s Chabahar port project as well as stating that it would fund the US\$1.6 billion (S\$2.15 billion) rail link between Chabahar and Zahedan, stretching to Iran’s north-western border, India has major strategic investments at stake. Aimed at enhancing regional connectivity through a trilateral transit arrangement with Afghanistan, Iran is also crucial to India’s involvement in the International North-South Transit Corridor which links West Asia to Central Asia and on to Europe. Aside from already having investments, India cannot afford to withdraw from its commitments and risk becoming sidelined in favour of other regional players. Already China’s influence stands to grow, as Iran’s largest oil customer, and with an agreement in place to carry out trade through renminbi-backed oil contracts. Meanwhile, Iran has also sought to allay concerns in Pakistan about India’s role and intentions in Chabahar by inviting Pakistan to participate in the port project. Furthermore, were the nuclear deal to completely collapse, the sanctions would be American-led and not the result of a unanimous UNSC resolution, as was the case before. This would mean a greater moral dilemma for India which would have to decide whether or not to comply with an American/Western-led initiative.

⁷ See page 12 in the report. http://mofapp.nic.in:8080/economicsurvey/pdf/001-031_Chapter_01_ENGLISH_Vol_01_2017-18.pdf. Accessed on 16 May, 2018.

⁸ The cargo is the first under an agreement between ADNOC and India’s government-owned company ISPRL, to locate 5.86 million barrels of ADNOC crude oil at the Karnataka facility in the Indian city of Mangalore, ADNOC.

The Global Reaction and India's Balancing Act

Trump's decision on 9 May 2018 was met with regret and dismay across the world but the move was certainly not unanticipated. In January 2018, Trump had warned that the US would withdraw from the accord on 12 May 2018 – the next deadline for waiving sanctions – unless its “disastrous flaws” were fixed. The three complaints expressed were that the deal only limited Iran's nuclear activities for a fixed period; failed to stop the development of ballistic missiles; and had handed Iran a US\$100bn (S\$134.3 billion) windfall that it used “as a slush fund for weapons, terror, and oppression”⁹ across the Middle East. Despite a flurry of diplomatic efforts, Trump was not dissuaded from taking unilateral action and indicated that he is willing to confront America's foes as well as pressurise America's allies and the North Atlantic Treaty Organization partners into complying with his decision.

European companies, which had moved quickly to invest in Iran after 2015, lured by the prospect of a largely untouched market with a 82 million population and substantial oil reserves, face a tough choice. Exports from the European Union to Iran increased by about one third in 2017, reaching US\$12.8 billion (S\$17.3 billion).¹⁰ Automakers like Daimler and PSA Peugeot Citroën have agreements with Iranian partners to sell vehicles. Siemens of Germany has a deal to deliver locomotives. Total of France was to begin a project to explore offshore natural gas.

India, on the cusp of another milestone in the Indo-US defence partnership,¹¹ will, like the European nations, be faced with the growing dilemma of how to pursue and preserve its own geo-strategic interests in the face of heavy-handed American action. This conundrum was evident in India's mild official response on 9 May 2018. In responding to media queries on the JCPOA, an official spokesperson of the Ministry of External Affairs gave the following statement:

⁹ See the Statement by the President on the Iran Nuclear Deal on 12 January 2018. <https://www.whitehouse.gov/briefings-statements/statement-president-iran-nuclear-deal/>.

¹⁰ “European Union, Trade in goods with Iran”, Directorate-General for Trade, European Commission. http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113392.pdf. Accessed on 14 May 2018.

¹¹ “Bill to strengthen Indo-US defence ties gains traction”, Yaswant Raj, *Hindustan Times*, 10 May 2018. <https://www.hindustantimes.com/india-news/bill-to-strengthen-indo-us-defence-ties-gains-traction/story-WWTNyl4j5rvNOiA0RbtPUM.html>. Accessed on 14 May 2018.

“India has always maintained that the Iranian nuclear issue should be resolved peacefully through dialogue and diplomacy by respecting Iran’s right to peaceful uses of nuclear energy as also the international community’s strong interest in the exclusively peaceful nature of Iran’s nuclear program. All parties should engage constructively to address and resolve issues that have arisen with respect to the JCPOA.”¹²

The statement conveys the delicate balancing act at play, with India acknowledging Iran’s rights under the auspices of the agreement, and, at the same time, admitting to concerns held by the international community about Iran’s nuclear programme. Having itself carefully negotiated and navigated the nuclear non-proliferation regime, India is in a unique position to hold sway on both sides. To-date, it has been possible for India to pursue drastically improved relations with the US and maintain old relations with Russia. In the Middle East or West Asia, India has also scored diplomatic victories in its relations with Israel, the Arab States and Iran, all at the same time. The strategy of multi-alignment and being open to business with all appears to have paid off.

Coping with American Unilateralism

In abrogating the nuclear deal and throwing another multilateral agreement into jeopardy, Trump acted fully in accordance with his ‘America First’ campaign promises and logic. The deal, in his view, did not enhance America’s security nor serve to buttress the country’s geopolitical standing. In fact, the 2015 deal gave much of the world access to Iranian markets but America’s own sanctions prohibiting US citizens from investing in Iran for decades, continued to remain in place. Thus only foreign subsidiaries of US-headquartered businesses were granted licenses to transact with Iran. Furthermore, despite being the deal-*breaker*, it is likely that Trump sees himself emerging triumphantly as the world’s pre-eminent deal-*maker*, given his recent moves risking a trade war with China and the planned summit with North Korean leader Kim Jong-Un in June 2018.

¹² http://mea.gov.in/media-briefings.htm?dtl/29880/Official_Spokespersons_response_to_media_queries_on_the_recent_developments_regarding_the_JCPOA.

The biggest implication for India’s foreign policy calculations is not the fallout of increased oil costs, or the task of finding new, or reviving old, sanction-coping manoeuvres¹³ in order to continue doing business with Iran. Rather, it is the challenge of dealing with, and preparing for, the consequences of America’s unilateralism. In this context, the emergence of a relatively new format for high politics – the “informal summit” is likely to be useful. In less than a month since Indian Prime Minister Narendra Modi and China’s President Xi Jinping met informally in Wuhan, Modi is due to meet Russia’s President Vladimir Putin in Sochi in Russia on 21 May 2018. Unencumbered by the need for an agenda or the prospect of issuing a joint statement, the informal summit provides leaders with an opportunity “to exchange views on international matters in a broad and long-term perspective”.¹⁴ The sheer uncertainty surrounding the future of the Iran deal and the frenetic efforts underway to salvage it, underlines the shock waves currently running through the international system, upending allegiances, creating fissures and presenting new opportunities for world leaders.

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¹³ For example, the revival of a rupee-rial payment arrangement which was put in place in 2011-2012 to enable bilateral trade.

¹⁴ <http://mea.gov.in/press-releases.htm?dtl/29897/Visit+of+Prime+Minister+to+Russia+May+21+2018>.