

India and Iran Relations: Sustaining the Momentum

Meena Singh Roy

Dr. Meena Singh Roy is Research Fellow at the Institute for Defence Studies & Analyses (IDSA), New Delhi.

May 20, 2013

Summary

The recent visit by the external affairs minister can be viewed as continuation of new diplomatic push to strengthen bilateral cooperation with Iran despite the difficulties of economic sanctions imposed by the US and EU. However, the real test for both the countries is to maintain and sustain the current momentum. The future of India and Iran relations will depend on two factors: First, how India manages to maintain the right balance between its growing relations with Israel, the US and GCC countries on the one hand and Iran on the other? Second, what will be the nature and level of Iran's engagement with India if and when its relations improve with the US and EU?

In past few years both India and Iran have been working towards managing its energy and economic cooperation under the shadow of the US and European Union (EU) sanctions. Despite the tightening of sanctions, India cannot halt the import of crude oil from Iran given its dependence on Iranian oil. Iran was India's second largest supplier of oil but now it has slipped to sixth position. India imported 16.083 million tones of oil in 2010-2011 and 14.689 million tonnes of oil during 2011-2012 .¹ Though India reduced oil imports from Iran, It is trying to expand trade in other commodities like tea, pharma, automobile, electronics, spare parts and agricultural products. India has already approved USD 364 million (20 billion rupees) fund to provide reinsurance to local refineries that process Iranian crude oil and the quantum of the fund can be raised in future.²

India and Iran have also been working to build the regional transport networks – International North South Transport Corridor, which will help connect South, Central and West Asia to Europe for regional economic development. Equally important is the regional security dynamics, particularly the developments in Afghanistan in the post-2014 scenario. In addition, the unfolding of Syrian crisis and the impact of the 'Arab Spring' has implications for both India and Iran.

West Asia is going through the phase of political transition. With the changing global and regional security environment, new geopolitical alignments as well as changing balance of power are taking place. Iran an important player in the region is confronted with both internal and external challenges. Domestically, it is preparing itself for the upcoming presidential elections in June and struggling to manage its economy because of the sanctions. Externally, it is trying to overcome its current isolation because of its standoff with the West on its suspected nuclear weapons programme. So far Iran has been able to manage both these challenges by developing strong political, economic and strategic relations with the states in the region and beyond, hoping that such ties can it through the difficult times. While the region reorganises itself, Iran and India look towards consolidating their bilateral relations. Both the countries are significant actors, whose role can't be overlooked in terms of their political and economic involvement in the region. Today, the regional complexities demand new ways and means of cooperation between India and Iran.

¹ Department of Commerce, Export Import Data Bank Country Wise all commodities at <http://commerce.nic.in/eidb/Icntcom.asp> (accessed on May 12,2013)

² Mukesh Jagota and Saurabh Chaturvedi, " India Approves Reinsurance Fund to Aid oil imports from Iran", at <http://online.wsj.com/article/SB10001424127887323646604578402372992203816.html> accessed on May 11,2013

It is in this context that the recent visit of External Affairs Minister, Salman Khurshid merits some attention. This is yet another diplomatic push towards strengthening the existing partnership between the two regional actors. Earlier, the visit of the Indian Prime Minister, Manmohan Singh to Iran on August 28, 2012 to participate in the NAM summit was a clear indication of New Delhi's desire to give new impetus to bilateral relations and enhance economic cooperation. The Prime Minister said: "there is lot of interest in doing business with India and getting Indian investment in infrastructure. There are of course difficulties imposed by western sanction, but subject to that I think we will explore ways and means of developing our relations with Iran".³ After Prime Minister's visit, a new thrust was given to the bilateral relations. Subsequently, several high-level visits have taken place from both sides.

Significant among the various interactions has been the recent 17th India-Iran Joint Economic Commission meeting held in Tehran on May 4, 2013. The external affairs minister Salman Khurshid and his counterpart Ali Akbar Salehi, under the framework of joint commission, discussed critical bilateral and regional issues. Four important areas were identified:

1. Regional connectivity
2. Enhancing bilateral trade and economic cooperation
3. Cooperation on regional security issues
4. Enhancing cultural and people-to-people contact

Regional connectivity

On regional connectivity, both sides agreed to work on a trilateral transit agreement involving Afghanistan. A draft agreement is expected to start soon. India's participation in Chabahar port project has been under discussion for the last few years but the decision to upgrade the Chabahar port was conveyed during the EAM's visit. As a follow up, India's Secretary from the Ministry of Shipping will visit Tehran to discuss the cost and related aspects on port project. It is important to note that the Iranian port of Chabahar (previously Bandar Beheshti), located on the Makran coast of the Sistan and Baluchistan province of Iran criss-crosses some of the most important international corridors – East-West, North

³ "Transcript of on board media interaction of Prime Minister en route from Tehran to New Delhi", Government of India, Ministry of External Affairs, August 31, 2012, available at <http://www.mea.gov.in/in-focus-article.htm?20442/Transcript+of+on+board+media+interaction+of+Prime+Minister+en+route+from+Tehran+to+New+Delhi>

corridors, South corridor and TRACECA⁴ - and can be considered one of the most strategic transit locations. It is often referred to as the 'Golden Gate' to the landlocked Commonwealth of Independent States (CIS) countries and Afghanistan. Chabahar has immense potential to connect the business centres in South Asia (Mumbai, Jamnagar, etc), the Middle East (Dubai), Central Asia (Turkmenistan) and Afghanistan (Milak). It is close to the mainline shipping routes connecting Asia and Europe and is 700 km away from the capital of the province of Zahedan and 2,200 km away from Tehran. The distance from Chabahar to Milak on the Afghan border is 950 km; it is 1,595 km to Dogharoon on the Afghan border; 1,827 km to Sarakhs on the Turkmen border; and 120 km from the Pakistan border. Iran plans to use this port for transshipment of a variety of goods - tea, eatables, electronics, building materials, heavy equipments, etc. - to Afghanistan and Central Asia and equally maintain the Bandar Abbas port as a major hub for trade with Russia and Europe.

From India's point of view, the strategic importance of Chabahar is immense. It not only gives access to the oil and gas resources in Iran but also provides access to Central Asian Republics. India and Iran have already taken initiatives to enhance connectivity through bilateral agreements. In April 2008, an important initiative was taken by both countries when India and Iran signed an agreement to establish a new rail link between Iran and Russia. India offered assistance for technical training of personnel, railroad signalling projects as well as the supply of locomotives and spare parts. The trilateral agreement between the governments of India, Iran and Afghanistan to develop the Chabahar route through Melak, Zaranj and Delaram will also facilitate regional trade and transit and thus contribute to regional economic prosperity.

India is interested in investing in the Chabahar container terminal project as well as the Chabahar-Faraj-Bam railway project. From Bam, which is on the Afghan border, goods can be taken through the Zarang-Delaram road, which is linked with the garland highway

⁴ The East-West corridor, which is the old Silk Road, connects Asia with Europe starting from Shanghai, through the Central Asian cities of Kashgar, Samarkand and Bukhara before reaching Tehran. It then continues from Iran to the north tip of the Syrian Desert and on to Italy. The TRACECA programme, launched in May 1993 for development of a transport corridor between Europe and Asia across the Black Sea, is an important corridor in the Eurasian region. Iran is a member of this project. The ALTID project was set up in 1992 and focuses on the North corridor (running parallel to the Siberian railway, via Kazakhstan to Russia and Europe) and the Central corridor (which passes through Turkmenistan and the Caspian Sea before it enters Turkey; branches of this corridor in Iran go south to the Persian Gulf and the Oman Sea via Chabahar). The South Asia corridor starts from South East Asia, passes through the Indian subcontinent and enters Iran in Mirjaveh on the border of Pakistan. Thereafter it continues to Europe via Turkey. The Iran-Iraq railway is likely to become operational in the near future. The transportation network in East-West and South Asia is also expected to connect with the Mediterranean in the future. These corridors, both existing and in progress, would increase the significance of Iran's transit potential.

connecting all major Afghan cities. There is also the possibility of extending this road to Tajikistan and Uzbekistan, which would give further impetus to regional trade and transit.⁵ During the current visit of the EAM, the proposed North-South corridor linking Russia with Iran was also discussed with the objective of clearing the hurdles. The potential of these corridors are immense. While new initiatives by India, Iran and other regional countries offer many opportunities, the challenges, however, limit the full realisation of these corridors. These challenges mainly concern the security situation in the region, lack of economic resources, the Iran-US standoff and finally the impact of current US and EU sanctions. India's recent decision to invest USD100 million in free trade zone in Chabahar can be viewed as a forward movement in terms of enhancing bilateral ties. Projects of such scale and size demand more time and assessment.

Enhancing bilateral trade and economic cooperation

The need to increase trade and economic cooperation between India and Iran is a strong imperative though the current level of economic engagement does not reflect the close relations between the two. India and Iran bilateral trade during 2011-2012 was USD 15,968.03 million as compared to 12,887.52 million in 2007-2008. The major portion of this trade is imports of petroleum products by India from Iran. Therefore, in order to sustain the level of trade interaction, it is important that Iran imports more from India. Agriculture, pharma, medical equipments and aeronautics are some of the identified areas where cooperation in future could be enhanced. It is ironical that Iran imports wheat from the US while it can do the same from India. During the EAM's visit, both countries have decided to increase the bilateral trade to USD 25 billion in the next four years.⁶ Another significant area where cooperation can be expanded is banking. In addition, India and Iran have agreed to explore the prospects of joint investment. These can happen in both oil and non-oil sectors like electronics, automobile, Information technology, and infrastructure. Iran is offering production sharing contracts (PSCs) on exploration of oil block in Iran to Indian companies. This offer of PSCs was repeated by the Iranian foreign minister during the recent Joint Commission meeting in Tehran. The Indian EAM reacted by saying, "We have an offer...to participate in one of their oil fields ...We must now respond".⁷ Despite attractive PSCs,

⁵ For details see Meena Singh Roy, "Iran:India's Gateway to Central Asia", Strategic Analysis, Vol. 36, No. 6, November-December 2012, 957-975

⁶ "Iran for more trade with India in non-oil Sector", at http://zeenews.india.com/business/news/international/iran-for-more-trade-with-india-in-non-oil-sectors_75977.html (accessed on May 12, 2013)

⁷ "India set to scale up ties with Iran; joint explorations on card", at <http://economictimes.indiatimes.com/news/politics-and-nation/india-set-to-scale-up-ties-with-iran-joint-exploration-on-cards/articleshow/19913595.cms> accessed on 12/5/2013

Indian firms are not sure about investing large sums as the risks are still too high owing to the sanctions. Capabilities in the industrial sector of both the countries were highlighted and both sides agreed to diversify their cooperation.

While economic diplomacy remained the highlight of the EAM's visit, there was neither any mention of the Iran-Pakistan-India (IPI) pipeline nor the liquefied natural gas (LNG) deal. In the case of the IPI, there are security and pricing related problems while on the LNG deal, Iran is yet to respond. After India voted against Iran in the IAEA in 2005, Tehran called off this deal. It was communicated by the Iranian Foreign Ministry Spokesman that "Iran will revise these (economic) relations, and these countries (that voted against Iran) will suffer. Our economic and political relations are coordinated with each other".⁸ Iran is a significant source of crude oil for India and will remain so in India's future energy demands.⁹ In recent times, India has had to reduce its crude imports from Iran because of the prevailing sanctions which impose restrictions on shipping and payment options. India and Iran are trying to find ways to overcome this problem. While India complies with UN sanctions, it does not recognise unilateral sanctions imposed by third countries. Despite these difficulties, India will continue to import crude oil from Iran because of its proximity and also because Iran has remained a reliable partner. Iran has regularly supplied crude oil to Indian refineries despite the recent difficulties of delayed payment. More so, it is not possible to reduce the imports drastically from Iran. Mangalore Refinery and Petrochemicals Ltd (MRPCL), India's biggest buyer of Iranian crude, declared earlier in January 2012 that it would continue to purchase Iranian oil. However, the very nature of sanctions imposed by US and EU has made the international trade environment significantly restrictive vis-à-vis Iran.

According to recent reports, Iran will develop three of its oilfields - Tossan, Esfandyar and Soroush - which are located in the Persian Gulf. Iran has also announced that it will implement 11 plans by July-August 2013 with the goal of increasing oil production by 175,000 barrels per day (bpd). Its oil minister has stated that Iran's oil output is projected to increase by 1.5 million bpd by 2016.¹⁰

There are other ways of enhancing energy cooperation between the two countries. Since Iran, as has been suggested, has a strong petro-chemical base, it would provide investment

⁸ Amit Baruah, " LNG deal is off: Iran" at <http://www.hindu.com/2005/09/28/stories/2005092813940100.htm>

⁹ India's energy use may more than double by 2030. Its oil imports are expected to account for 90 percent of the country's requirement by 2030.

¹⁰ "Iran to develop 3 Persian Gulf Oil Fields" at <http://old.mehrnews.com/en/newsdetail.aspx?NewsID=1821283> accessed on May 6, 2013

opportunities to Indian companies and they can export finished products to India. Moreover, the feasibility study of deep sea pipeline project has been carried out and the prospects will soon be discussed.¹¹ If Iran expects India to be its true partner in energy cooperation it must give due attention to revisit the India-Iran LNG agreement signed in January 2005, according to which Iran was to export 7.5 million tonnes of LNG per annum over the 25 years starting in 2009.

Cooperation on regional security issues

The region is passing through the turbulent phase. There are huge political uncertainties particularly in Afghanistan, Syria and some of the West Asian countries. Without Iran's inclusion a durable regional security architecture will not be sustainable. Iran controls the entry and exit to the Straits of Hormuz through which vast amount of oil passes. The uninterrupted oil supplies from the Persian Gulf remain important for India and the global economy.. Any military attack on Iran can interfere with the safety of oil supplies through the Straits of Hormuz. Military conflict in the region can lead to massive rise in global oil prices affecting the global economy. Iran is equally an important player in Afghanistan and had played constrictive role after 9/11 by offering full support to the US in ending the Taliban rule. Both India and Iran have stakes in the stability of Afghanistan. Can the two countries cooperate? In past, India-Iran and Russia have jointly cooperated on Afghanistan. During the recent visit of the EAM, developments in Afghanistan and Syria were discussed at length with a focus on stability and efforts to deal with increasing violence and the challenges that a possible return of Taliban would bring. In the light of the US withdrawal in 2014, India and Iran need to evolve strategies to help Afghanistan in rebuilding their country. These efforts could include building infrastructure connecting Afghanistan with Central Asia via Iran, by working together in sharing information to ensure that Taliban does not return in Afghanistan. In the past India has worked with Iran, Russia and Tajikistan. In addition, regional countries like Russia, and China will have to play a far more active role in Afghanistan's economic development. At the same time no durable solution can be found without Pakistan's constructive role in Afghanistan.

Iran's concerns over the current crisis in Syria were also expressed during Salman Khurshid's interaction with his counterpart, Ali Akbar Salehi and Ali Larijani, the Speaker of the Iranian Majlis. On the Syrian crisis, India and Iran would want an end to violence and a peaceful resolution taking into account the aspirations of people of Syria. Both support the Geneva Communiqué, which includes the "6-Point Plan of Kofi Annan". For Iran, stakes are high in Syria, and not surprisingly is thinking about diplomatic initiatives to resolve the

¹¹ Views expressed by the Iranian side during the IDSA-IPIS Bilateral Dialogue at IDSA in Delhi on December 12, 2012.

Syrian crisis by getting the major non-aligned countries together.¹² However, it needs to be seen how far Iran's proposal of involving NAM countries would reach and to what extent India will be willing to play more active role in resolving the Syrian crisis under the initiatives of Iran. For India, its relations with the Gulf Cooperation Council (GCC) countries are equally important. In fact, the stakes are high in the Gulf, where more than six million Indians work. The GCC countries are India's largest trade partner with trade in 2011-12 about \$124 billion, far outstripping the financial volumes of such ties with any other region of the world.

Enhancing Cultural and People-to-people Contact

To give further push to the cultural ties and increase people to people contact between the two countries, the Indian Cultural Centre was inaugurated in Tehran during the EAM's visit. India did not have a single Culture Centre while Iran had many Culture Centres in India. Therefore, opening up of the Centre is significant from a historical and cultural context. To enhance people-to-people contacts, the two sides felt the need to liberalise the visa regime.

During this visit the following MoUs¹³ were signed:

1. MoU between Institute of Standards and Industrial Research of Islamic Republic of Iran (ISIRI) AND Bureau of Indian Standards (BIS)
2. MoU between the Foreign Service Institute, Ministry of External Affairs, India and School of International Relations, Ministry of Foreign Affairs, Iran.
3. MoU between the Government of Republic of India and the Government of Islamic Republic of Iran on Cooperation in the field of Water resources management.

Iran's controversial nuclear programme has been a sensitive issue with India since India's vote against Iran at the IAEA in 2005. Iranian perception has been that because of its historical ties and as a founding member of the Non-Aligned Movement, India should have been more sensitive towards Iran and not have followed the Western line. India's position has been very clearly articulated on this issue. It has been emphasised that Iran

¹² Joint Press Statement on 17th India-Iran Joint Commission Meeting, May 4, 2013.; Atul Aneja, "Iran for bigger Indian role in Syria", at <http://www.thehindu.com/todays-paper/tp-international/iran-for-bigger-indian-role-in-syria/article4690795.ece>

¹³ Joint Press Statement on 17th India-Iran Joint Commission Meeting, May 4, 2013 at <http://www.mea.gov.in/outgoing-visit-detail.htm?21652/Joint+Press+Statement+on+17th+IndiaIran+Joint+Commission+Meeting>

has a right for peaceful use of nuclear energy while fulfilling its obligations owing to its membership of Nuclear Non-Proliferation Treaty (NPT). India has urged all sides to resolve the issue diplomatically through discussions and negotiations. During the recent visit of EAM, Iranian shared information on its nuclear programme and informed about the resumption of talks with P5+1 which is likely to start this year.

Prognosis

The recent visit of the EAM can be viewed as continuation of new bilateral push despite difficulties of economic sanctions. In this new phase, both sides are attempting to reenergise economic cooperation and enhance regional connectivity. If India is exploring ways and means to give a push to its Iran policy, Iran, on the other hand, wants “sincere and deep-rooted relations”¹⁴. Iran’s relationship with India in the last decade has been built on the strong underpinnings of ancient links and goes beyond bilateral ties.

The future of India-Iran relations will depend on two factors: First, how India manages to balance its relations with Israel, US and the GCC countries on the one hand and Iran on the other?

Second, what will be the nature and level of Iran’s engagement if its relations improve with the US and EU? Will Iran’s foreign policy then be more west-focused or east-centred? In the past, during the Cold War, Iran under the Shah was in the west camp but after the revolution the relations with the west fell apart. The West Asian region including Iran is highly Euro-centric and therefore if Iran-US relations improve, the foreign policy direction would be more towards Europe/US than towards Asia.

For India, Iran continues to remain important for various reasons: energy security, for countering Pakistani Taliban in Afghanistan, for access to trade and transport connectivity with Central Asia and Afghanistan and, to some extent, for managing the domestic political dynamics. India does not want to be a victim of the US policy in West Asia. However, equally important for India is its strategic partnership with the US.. In the current context, the real test for India and Iran is to maintain and sustain the current momentum.

¹⁴ “Transcript of the Media Briefing by Foreign Secretary in Tehran on Prime Minister’s meetings in Iran”, Government of India, Ministry of External Affairs, August 30, 2012, available at <http://www.mea.gov.in/in-focus-article.htm?20439/Transcript+of+the+Media+Briefing+by+Foreign+Secretary+in+Tehran+on+Prime+Ministers+meetings+in+Iran>