

INDIA-IRAN RELATIONS

In news:

- The crack in the India-Iran relationship got exposed in the past week when the Iranian Foreign Minister Javad Zarif condemned “the wave of organised violence against Indian Muslims”.

Why India-Iran ties are significant?

Positive aspects:

Strategic:

- Besides being a key source of crude oil for India, Iran is critical to India’s regional policy as it seeks to balance against China’s growing influence in South Asia.
- Pakistan and China have been strategic partners for decades and the ongoing China-Pakistan Economic Corridor has further cemented this strategic relationship.

Geopolitical

- Through the Belt and Road Initiative (BRI), China has also successfully enhanced its role in both South and Central Asia.
- Notwithstanding Iran’s growing bonhomie with Pakistan and China, India must stay in close contact with Iran and consciously and consistently pursue good diplomatic and economic relations with it.
- If the United States withdraws from the nuclear deal, both Saudi Arabia and Israel are expected to intensify further their efforts to combat Iranian influence in the region.

Strait of Hormuz dilemma:

- One of the most significant capabilities of Iran is its ability to disrupt maritime access to the Persian Gulf through the narrow Strait of Hormuz.
- The disruption of oil and gas production or its transportation through the Strait of Hormuz, would lead to a big spurt in the prices of oil and gas, which, in all probability, would create a major global economic crisis.
- Even if the strait is not closed, any conflict in the region could increase the global oil prices drastically

Economic:

- India’s interest in diversifying its market in central Asia.

- INSTC connectivity to Eurasian Economic Union

Chabahar Port:

- New Delhi is left with Chabahar as the only access route into Afghanistan and Central Asia.
- It has already committed over \$500 million to the development of the port, which was operationalised last year when India sent a shipment of wheat to Afghanistan via Chabahar.
- New Delhi may have to limit its investments in Chabahar or risk facing blowback from Washington, Tel Aviv, and Riyadh.
- Iranian oil supplies decreasing in the international oil market, it would impact on prices worldwide, and will add to India's ballooning oil import bill.
- For India, oil imports are key to sustaining its economic growth trajectory as they are needed to meet 80 percent of energy requirements. Iran is the third-largest source of oil for India after Saudi Arabia and Iraq.

Cultural:

- India has the 2nd largest population of Shias in the world after Iran some of whom probably also have ancestral ties to Iran.
- These ties back to a complex political situation in India. Religion and national allegiances play a large part in Indian politics and this is magnified with the upcoming elections.

Commercial:

- Iran believes that India fulfils a substantial part of Iran's needs.
- For example, India is very capable in steel, aluminium, in mines and metals, railroads, software, IT, technology and so on. There is a lot of demand in these sectors in Iran.

Terrorism:

- Globally, New Delhi and Tehran are on the same page in their opposition towards groups like al-Qaeda and the Islamic State.
- Increasing hold of ISIS is a threat to Iran and with India effective efforts against terrorism India can be a attractive partner.

Pakistan and Taliban:

- After the recent US-Taliban agreement, India needs Iran on its side as Taliban's influence — and the Pakistan military's influence — is on the rise in Afghanistan.

Shia population:

- India has a Shia population second only to that of Iran. There are two Iranian consulates in India in Hyderabad and Mumbai. Iran seeks a third one in Lucknow.

Other projects:

- India has been vigorously pursuing the Iran–Pakistan–India (IPI) gas pipeline project for the last decade.
- The Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline yet to take off and India is very keen to kick-start an undersea pipeline project that would bring Iranian gas to India via the Arabian Sea bypassing Pakistan.
- Iran may also provide connectivity to Central Asia and Europe, via the International North South Transport Corridor (INSTC), which is estimated to be 40% shorter and 30% less expensive than trade via the Red Sea-Suez Canal-Mediterranean route.

Negative aspects:

- India and Iran relations are on a downward trend in recent times.
- Oil supplies are reduced to India and Iran is not in favour of allotting gas fields to India in recent times. Mostly India's relations with the US might be the reason for this.
- But India is in a better position having been forced to diversify its crude supply base. It may impact on Chabahar port project if US impose more sanctions on Iran.
- It will impact India's balance in the complex West Asia region.

Concerns:

- India-Iran oil equation: India has brought down the oil imports from Iran to zero due to the threat of US sanctions under the Donald Trump administration.
- China factor: China has become Iran's biggest economic partner, and Beijing's influence is visible in its foreign policy actions.
- The Chabahar problem: Plans to develop a railway link from the port till the Afghan border has not made any progress, which has upset the Iranians.

- With a new set of stringent sanctions coming in and tensions raging between the US and Iran over the assassination of Iran's top military leader Qassem Soleimani, Indian firms are not willing to invest in the port.
- Involving China: Iran has not only suggested that China would be part of the Chabahar project but has also dangled the possibility of Pakistan joining the project at some future date.
- India's Middle East Policy shift: Earlier India's Middle East policy has traditionally tried to balance the three poles in the region: the Arab Gulf states, Israel and Iran.
 - But now India is being seen as more friendly with the Saudis, Israelis and Americans which is disliked by Iran.
 - India has also grown increasingly close to Israel, a country that is the source of vital military equipment for India, but which is also engaged in severe competition with Iran.
- Instability in the gulf region: India's immediate challenge in an event of escalation in the Gulf of Oman would be international crude prices.
- India's closeness with the USA: The United States itself is an increasingly vital partner for India. This is disliked by Iran.
- Growing divergences on Afghanistan and regional security: Emboldened by their experience in Syria, Iran and Russia are also working closely in Afghanistan to challenge the US and, this primarily means, supporting the Taliban with greater vigour.
 - Iran appears to be more closely aligned to Pakistan in Afghanistan than before, as evidenced by Pakistan Prime Minister Imran Khan's recent trip to Iran.

Iran's ties with China and implications for India

- China- only major country to defy the US sanctions: Meanwhile, the U.S. continues to implement its "maximum pressure policy". China remains the only major country that continues to defy U.S. sanctions and buy oil from Iran, apart from a small quantum that goes to Syria.
- The sale of oil to China, however, does little to replenish Iran's coffers. China is eschewing payments in order to avoid triggering more sanctions against Chinese entities.
- Trilateral naval exercise: When seen in the context of the trilateral naval exercise between China, Iran and Russia in the Strait of Hormuz

in the end of December 2019 codenamed “Marine Security Belt”, these developments suggest a further consolidation of Sino-Iran ties in a region of great importance to India.

- Inclusion of Pakistan in the exercise: Over time, this could expand into a “Quad” involving China’s “all-weather friend” Pakistan in the Indian Ocean and the northern Arabian Sea, with broader implications for India as well as the “Free and Open” Indo-Pacific.

CURRENT AFFAIR

Issue

Context

One of the most difficult tasks that the Indian foreign policy-makers has been facing on and off is to balance their relations with Iran while enhancing their proximity with the global superpower, the United States.

About:

Present advice of the U.S. administration to the oil importing countries to stop all oil purchases from Iran is definitely not a good news for New Delhi.

Iran was until 2006 India’s second-largest supplier of crude oil. But it dropped to number seven by the end of 2013-14 importing only 6 per cent.

However, India continues to be Iran’s second-largest buyer, next only to China. In terms of quantity, India’s imports came down from 27.14 million tonnes in 2016-17 to 17.62 million tonnes during 2018-2019.

More than oil, the current diplomatic tussle gives an opportunity to analyze the criticality of:

- How to re-balance and stick to long term policy alignments in the wake of USA's shifting stance?
- Can USA guarantee stability in Oil supply and price levels post departure of Iran's oil from the market?
- Who would 'tame' OPEC's hegemony and why?
- If not Iran, where else will India go to access Central Asia?

Background:

- India’s indifferent relations with China and Pakistan mean that Iran provides the only access to the untapped markets of Afghanistan

and Central Asia for Indian goods, as well as India's only option for tapping the vast untapped energy and other mineral resources of the region.

- Iran also provides India the shortest access to the vast energy resources of the Caspian basin and the Caucasus region.
- The growing Indian economy not only requires the vast untapped markets of the central Eurasian landmass, but also needs newer sources of energy supplies.
- For five centuries prior to the British rule, the Persian language was the second language in most of South Asia. It became the language of the elite in many princely states and the medium for higher education.
- The Urdu language, which is the official language of Pakistan and is spoken widely across India and other countries in South Asia, is written in the Persian script and is deeply influenced by the Persian language. There are similarities between the oldest Indian scriptures, the Vedas, and the Iranian Avesta.

Analysis

Criticality of the Civilizational links:

- Iran has come to symbolise the aspirations of Shias worldwide. Accordingly, in India, there is strong support for the Iranian viewpoint amongst the Shia clergy as well as the masses.
- In cities like Lucknow, this pro-Iran sentiment is clearly discernable to any observer. There are approximately 25 million Shias in India, who visit various places of pilgrimage in Iran and look up to Iran and the Iranian clergy for spiritual guidance.
- Besides Shias, the miniscule but economically significant Parsi (Zoroastrian) population of India has its centres of pilgrimage in Iran. It also has a small Zoroastrian minority still living there, with whom Indian Parsees have emotional bonds
- One of the oldest continuously inhabited civilizations, it forms a bridge between the Semitic world and the Indo-Aryan civilization of South Asia and has had strong historical linkages with the Indian civilization.
- Despite strong convergence, Indo-Iran relations in recent times have been affected by Iranian relations with the US.

- The identification of Shiite masses with Iran allows it a significant role in Afghanistan, which not only is a neighbouring country, but also has a substantial Shia population.

Geo-economic significance of Iran:

- The main contributory factor to Iran's significance continues to be its huge hydrocarbon resource, which contributes to 80 per cent of its exports.
- Moreover, Iran's energy resources have gained further significance with the depletion of energy resources in other oil producing states.
- From India's point of view, Iran's energy resources provide one of the closest and cheapest energy resources available to fuel India's growth.
- Accordingly, India has been looking at the North South Transport Corridor and Iran-Pakistan-India (IPI) gas pipeline to resolve its energy shortages.
- The IPI was proposed as a pipeline that would transport 36 billion cubic metres of gas every year from Bandar Abbas to Calcutta. Of this, 70 per cent gas was meant for India while 10 and 20 percent were meant for Iran and Pakistan respectively.
- Despite huge oil reserves, Iran lacks adequate refining capacity and as against an annual consumption of 64.5 million litres of petrol, its refineries can refine only 43 million litres, which forces it to import approximately one-third of its consumption.
- Iran has been a major destination for the products of some Indian refineries in the private sector, which are unable to market their products locally as the petroleum products are subsidised by the government.

Strait of Hormuz dilemma:

- One of the most significant capabilities of Iran is its ability to disrupt maritime access to the Persian Gulf through the narrow Strait of Hormuz.
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Iran factor can influence remittance earning:

Iran has the capability to create disturbances in any of the Persian Gulf states. The presence of a substantive Shia population in most of these states further increases Iran's leverage.

There is a huge Indian Diaspora in these states and a major source of foreign exchange earnings for India are the remittances sent by overseas Indians. In fact, India tops the global list of countries receiving remittances.

But, is it all bonhomie?

The issue that has drawn maximum attention on Iran in recent times is its attempt to set up a uranium enrichment facility. It does not serve India's interests to have another nuclear state in its vicinity. Iran's bomb may lead to an arms race in the Gulf.

Despite the recent bonhomie between India and Iran, successive Iranian regimes have, by and large, taken an anti-India stance on Kashmir. Iran had provided material support to Pakistan during both the 1965 and 1971 Wars.

Anyhow, Iran is geo-politically important for India:

Iran's significance for India as gateway to Eurasia, its growing role and levers in West Asia and Afghanistan make it difficult for India to abandon Iran under the U.S pressure.

Regionally, India needs Iran both for its connectivity projects INSTC and Chabahar, support and engagement in Afghanistan and its cooperation to maintain balanced ties with China, Pakistan and Russia.

Summing up:

- To conclude, it would not be incorrect to state that Iran's unique geography, its population and nature have bestowed upon it a unique strategic significance, making it one of the important players in the global arena.
- From India's perspective, good relations with Iran are an essential imperative for India's sustained growth and development.

- Its energy resources could easily speed up India's growth and its landmass could provide Indian manufacturers' access to Central Asia and the Caucasus.
- On the other hand, Iran's nuclear weapons programme does pose a threat to regional and global peace. It could also irrevocably disturb the balance of power in the geo-strategically significant Persian Gulf.
- Any disturbance in the region could adversely affect India's economic well-being. The recent accord between the West and Iran has given diplomacy a chance.

Practice Question:

Isolating Iran is not likely to bring any peace and development in the region. Mitigating hostility is likely to deliver better results not only for the US and Iran but bring greater benefits for the larger international and regional community as well. Discuss criticality of India-Iran relations within this perspective.

CURRENT AFFAIR:

Why in News

Recently, the Ministry of External Affairs (MEA) has confirmed that **India is no longer involved in the Farzad-B gas field project of Iran.**

- Further, it said that India has **not received any response from Iran** since December 2019 on the future of the **Chabahar-Zahedan railway project as well.**
- It cited **policy changes by the Iranian government, Iran's uncertain finances,** and the **USA sanctions situation** as the reasons behind the decisions on Indian infrastructure projects in Iran.

Key Points

TIMELINE: CHABAHAH AND FARZAD-B

Dec 25, 2002: A consortium of ONGC Videsh, IOC and Oil India signs contract for carrying out exploration at Farzad-B block

Jan 25, 2003: Former PM Atal Bihari Vajpayee and then Iran president Seyyed Mohammad Khatami sign a deal to develop Chabahar port complex and Chabahar-Fahranj-Bam railway link

June, 2009: Farzad-B contract expires

May 6, 2015: Union minister Nitin Gadkari signs an MoU with Iran

May 22, 2016: PM Narendra Modi visits Tehran; discusses Chabahar and Farzad with Iranian President Hassan Rouhani

Dec 3, 2017: Rouhani inaugurates first phase of port

Jan 2018: Iran and India sign pact worth \$2 bn for cooperation in rail

Feb 10, 2018: Iran signs agreement to lease the operational control of Chabahar port

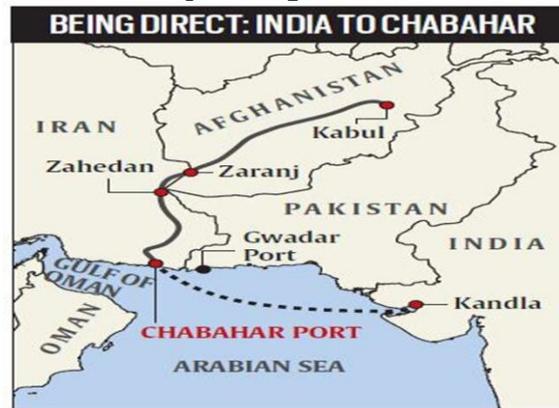
Jul 2020: Iran shows the door to India in both Chabahar and Farzad-B projects



• Farzad-B Gas Field:

- It is located in **Persian Gulf (Iran)**.
- The contract for exploration of the field was signed in 2002 by Indian **consortium** comprising ONGC Videsh, Indian Oil Corporation and Oil India.
- The contract expired in 2009 after declaration of commerciality of the field, based on the gas discovery.
 - It has **gas reserves of more than 19 trillion cubic feet**.
 - ONGC has invested approximately **USD 100 million**.
- Since then, the consortium has been trying to secure the contract for development of the field.
 - The major dispute between India and Iran was over setting up of two pipelines, and also over money to be quoted on the development plan.

- Around 75% of the deal was finalised by May 2018, when the **USA unilaterally withdrew from the nuclear deal** and announced sanctions on Iran.
- In **January 2020**, India was informed that in the immediate future, **Iran would develop the field on its own** and would like to **involve India appropriately at a later stage**.
- **Chabahar-Zahedan Railway Project:**



- In the '**New Delhi Declaration**' signed in 2003, both countries had decided to jointly develop the Chabahar Port complex.
 - The Port development was exempted from the sanctions.
 - India's main investment in the Chabahar Port where it has taken over **operations of one terminal**, had progressed well in the last few years, handling 82 ships with 12 lakh tonnes of bulk cargo in 8200 containers since December 2018.
- A contract to **develop the 628-km railway line (Chabahar-Zahedan)** along the Iran-Afghanistan border was signed in **2016**.
- IRCON was appointed by the Government of India to assess the feasibility of the project. It was working with CDTIC, an Iranian company.
- It had completed the site inspection and review of the feasibility report. The Iranian side was to nominate an authorised entity to finalise outstanding technical and financial issues. India waited for the same.
- However, Iran started work on the railway project in July 2020.
- India is **not part of this project** as of now since there is lack of clarity on whether it will attract the USA sanctions. However, it has conveyed to Iran that it is open to joining the project later.
- **Concerns for India:**
 - Iran's growing proximity to China.

- Further, Iran seems to be sceptical of India's diplomatic ties with the USA.
- **Farzad-B gas Field:**
- India needs gas and Iran remains one of the best options as geographically, Iran is closest to India of all the countries in the Persian gulf region.
- Further, it could have improved India-Iran ties as the crude oil import from Iran remains impacted due to the USA sanctions.
 - **Chabahar** is not only a key to maritime relations between both the countries, but also provides an opportunity to India to reach Russia and Central Asia.
 - Further, it allows India to bypass Pakistan which had blocked Indian aid to Afghanistan and all trade over land.

Way Forward

- India needs to play a balancing act between the USA and Iran.
- Further, India needs to closely watch the space created by its exit.
- In a world where connectivity is seen as the new currency, India's loss on account of these projects can become gain for some other country, especially China.