

Impact of UN-EU Sanctions on Indo-Iranian Relations

Dr. Shamim Ahmad Wagay

Research Scholar Vikram University Ujjain M.P (India)

ABSTRACT

India and Iran are two ostentatious historical civilizations. Centuries of interactions have extremely exaggerated each other's life and way of assessment. The importance of Iran is broad and diverse. Iran's importance lies in its geostrategic location, energy resources and providing admittance to the Central Asian region. However, certain external agents have successfully declined their relations at an ease by one or other way. The giant role played by US followed by the EU by imposing sanctions on Iran has declined the age old relations of the two countries at a large extent. However it is pertinent to mention that the two affinities are doing a lot in order to overhaul their track back.

Key Words: Energy, Geostrategic, Imposing, Nuclear, Sanctions.

I. UN ECONOMIC SANCTIONS AS A CHIEF BARRIER IN INDO-IRANIAN RELATIONS

Nevertheless, during the course of cordial relations between India and Iran in 21st century, one of the chief barriers is the influence of UN economic sanctions on Iran and US policy of isolation of Iran from rest of the world. United States and EU has been imposing economic sanctions to the Iran from the very event of the hostage crisis of 1979-1981. It was during 1990s, US highlighted the Iranian nuclear issue and added fuel to the fire of sanctions which further weakened its economic strength.

After the US President Barrack Obama signed a bill in May 2010, imposing relentless economic sanctions on Iran that includes slashing off Iran's access to refined petroleum imports, and restricted US banks from carrying business with foreign banks that provided services to the Revolutionary Guards, in July 2010 India and Iran, gave a boost in bilateral economic relations, which is viewed to be a challenge to the unilateral sanctions enforced by the US to the Iran. India believes that Iran is a significant partner over and above a significant spring for energy resources and it is interesting in developing the mutual relations. Iran is also one of the major suppliers of crude oil, and India in turn is also a chief supplier of refined petroleum products for Iran. India, the world's fourth-largest petroleum consumer, is the second largest oil customer after China and purchases around \$12 billion worth Iranian crude every year, about 12 percent of its consumption. India and Iran have been holding discussions at regular intervals on issues related to economic cooperation under the joint commission mechanism, which was established in July 1983. India imported 262,800 barrels per day (bpd) from Iran in 2012/13, a reduction of 27.4 percent from the previous year, according to preliminary government data. Iran has asked India to settle all oil trade including \$1.53 billion owed to Tehran in the partly convertible rupee as the sanctions-hit nation cannot find an alternative payment Channel. India has been paying for 45 per cent of its

Iranian oil imports in rupees, which has limited international acceptability, and was settling the remainder in Euros through Turkey's Halkbank, but this was halted in February under pressure from tighter Western sanctions. The US and European Union slapped sanctions on Iran to block oil revenues over its disputed nuclear programme, which they suspect aims to build weapons. Iran denies this claim. Since April 1, Indian refiners have held on to 55 per cent of payments as Iran has been exploring avenues, including settling in roubles through Russia. The non-payment was seen as a hidden incentive or temporary relief on top of attractive credit terms offered by Iran to Indian clients.

On December 27 2010, regarding the payment mechanism for trade with Iran, the Reserve Bank of India (RBI) announced that: "In view if the difficulties being experienced by importers in payments to and receipts from Iran, the extant provisions have been reviewed and it has been decided that all eligible current account transactions including trade transactions wit Iran should be settled in any permitted currency outside the Asian Clearing Union (ACU) mechanism until further notice." ACU is the simplest form of payment arrangements whereby participants settle payments for intra-regional transactions with central banks as their representatives. Iran had refused to sell crude oil to Indian companies if the payment was done outside ACU route. Nevertheless, Iran later agreed to ensure shipments at least for January 2011.

According to the media reports, the RBI had issued the decree 'under pressure from the US to act against Iran's nuclear ambition'¹. This created impasse not only in oil payments to Iran but also in the supply of oil, and created a crisis of sorts in Indo-Iranian relations. In fact, to make matter worse, on 7 January 2011, the State Bank of India (SBI) refused to issue fresh Letters of Credit (LCs) to public and private sector refiners. This move has the potential to 'halt' oil imports from Iran altogether. This stance by the RBI has led Reliance Industries to abandon its plans to invest in an oil refinery in Iran. Though there is no direct evidence that American pressure is operating on Indian companies, however, there are inductions that it is quite likely that firms like Reliance were coerced to withdraw from Iran of they wanted to keep their prospects alive in the Shale Gas sector in USA².

India-Iran relations have been affected by the sanctions imposed by the West on Iran. India's trade, especially, import oil from Iran has been affected by the sanctions, as channel for payment has emerged as a major problem for India. As mentioned earlier the banks through which India made the payments to Iran have come under the sanctions thus creating problems of payments which hinder the smooth conduct of trade. But despite the sanctions both the countries decided in 2012 to make 45 percent of payment for oil in Indian rupee and the rest of the amount through other modes³. Both countries agreed on the percentage after meetings between officials of the Reserve Bank of India and the Central Bank of Iran. But Iran has been reluctant to receive payments in Indian currency beyond 45 percent while India proposes to make all the full payment in its own currency. In

¹ Sidartha, 'Rbi's Iran Move Runs into Trouble', *Times of India*, 29 December 2010.

² Uddipan Mukherjee, *The Oil Payment: New Twist in Indo-Iran Relations*, 331,13, January 2011, IPCS.

³ <http://www.thehindubusinessline.com/economy/india-to-make-45-of-iran-oil-payments-inrupees/article2868666>.

turn, Iran has turned down India's request for full payment in Indian currency for oil imports⁴. In recent Years, India's crude imports from Iran have fallen significantly as a result of the sanctions on Iran. In 2009-2010 Iran was the second largest supplier of crude oil to India supplying 22.08 million tonnes of crude. In 2012-2013, crude oil supply from Iran has come down to 13.22 million tonnes. As a result of falling imports from Iran, India has relied upon imports from Iraq and other Gulf countries.

II. THE PIPELINE AND INDIA'S VOTE AGAINST IRAN AT THE IAEA

The much hyped \$7 billion 2700 Km Iran-Pakistan-India gas pipeline has failed to materialise. Despite the fact that the officials point out security reasons and transit fees to be the constraints of the project it is widely believed that it is much to the displeasure of Washington that IPI has failed to bear fruit. Had the IPI pipeline materialized it would have been breakthrough in India's imminent energy demands⁵.

The Obama administration is heatedly contrasting to the pipeline as this would bring sizeable revenue for Iran which stands in front of castigatory economic sanctions due to its contentious nuclear programme. As of now if India continues to fit into place with Iran over the Pipeline then it would be under sanctions in accordance with the wide-ranging Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) which will inflict penalties of foreign companies that put in more than \$20 million in a single year in Iran's energy sector⁶.

III. CONCLUSION

Concluding the conclusion it is crystal clear that UN policy of isolating Iran from the rest of the world played a pivotal role in declining the relations of the two countries which were once sharing the borders before the partition of India. Furthermore, the sanctions imposed by the US and EU emerged as a giant barrier in the business transactions of India and Iran. Even the dream project of Iran- Pakistan- India (IPI) is yet to see the light of day. IPI despite escaping from all the odds finally trapped in the displeasure of US.

⁴ "Iran rejects India's Plea for Full Rupee Payment for Oil import", *The Hindu*, October 3, 2013.

⁵ C. Christine Fair, "Indo-Iranian Relations: What Prospects for Transformation", in Sumit Ganguly (ed.) *India's foreign Policy: Retrospect and Prospect*, New Delhi, Oxford University Press, 2010, p. 121.

⁶ Sujatha Ashwarya Cheema., "India-Iran Relations: Progress, Challenges and Prospects", *India Quarterly*, 66 (4): 2010, pp 383-396 .