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Issue Brief

Rising US-Iran Hostilities and Challenges for India

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S*ummary*

US withdrawal from JCPOA, its imposition of unilateral sanctions on Iran and the recent war of words between the countries have led to a rapid rise in tensions in the Persian Gulf. India has also been affected by the US sanctions, especially on imports of Iranian oil. While India is unlikely to risk ties with the US to please Iran, it should, nonetheless, explore options such as buying Iranian oil through unconventional channels and enhance its investments in Chabahar in order to placate Tehran.

On May 10, 2019, the US Department of Defense announced that it has “approved the movement of the USS Arlington (LPD-24) and a Patriot battery” to Central Command (CENTCOM) for deployment in the Persian Gulf.¹ The USS Arlington is an amphibious warship that “transports U.S. Marines, amphibious vehicles, conventional landing craft and rotary aircraft with the capability to support amphibious assault, special operations, or expeditionary warfare missions.”² Its movement bolsters the existing US naval presence in the region and underlines the fact that the US might be preparing for use of force against Iran. This development follows President Donald Trump’s April 22 decision to not “reissue Significant Reductions Exceptions (SREs)” on Iranian oil exports to eight countries, namely China, India, Japan, South Korea, Turkey, Greece, Italy and Taiwan, when they expire on May 02 in order to reduce Iranian oil exports to zero and “deny the regime its principal source of revenue.”³ On May 08, the first anniversary of the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA), Iranian President Hassan Rouhani announced in a televised address to the nation that the Supreme National Security Council (SNSC), which he heads, has decided to suspend some of its commitments under the JCPOA toward “safeguarding the Iranian nation’s security and interests.”⁴ Rouhani further stated that the decision of the SNSC has been notified to the five remaining signatories⁵ of the JCPOA.

These developments underline the growing tension in the Persian Gulf and the increasing pressure being placed on the Iranian economy under unilateral US sanctions. After the US withdrawal from the JCPOA and re-imposition of sanctions, Tehran stepped up diplomatic efforts to convince the European Union (EU), Russia, India and other countries to continue doing business with Iran. In general, it received a positive response. On January 31, 2019, Germany, France and Britain announced the establishment of a Special Purpose Vehicle (SPV), called the Instrument in Support of Trade Exchanges (INSTEX), to “facilitate legitimate” trade between the EU countries and Iran.⁶ However, the US threat to impose secondary sanctions under the Countering America’s Adversaries through Sanctions Act (CAATSA, 2017) might prevent European companies from defying US sanctions.⁷ This can multiply economic troubles for Iran which is already facing a serious recession on account of the renewed US sanctions.

¹ [“Statement from the Department of Defense on Additional Forces to U.S. Central Command”](#), News Release No. NR-116-19, *US Department of Defense*, May 10, 2019.

² Ben Werner, [“USS Arlington, Patriot Missiles to Join Lincoln Carrier Strike Group in Middle East”](#), *USNI News*, May 11, 2019.

³ [“President Donald J. Trump Is Working to Bring Iran’s Oil Exports to Zero”](#), *The White House*, April 22, 2019.

⁴ [“Iran notifies JCPOA partners of suspension of some commitments”](#), *Press TV*, May 08, 2019.

⁵ After US withdrawal on May 08, 2018, the remaining signatories are United Kingdom, France, Russia, China, Germany and Iran.

⁶ Ellie Geranmayeh and Esfandiyar Batmanghelidj, [“Trading with Iran via the Special Purpose Vehicle: How it can Work”](#), *ECFR Commentary*, February 07, 2019.

⁷ Alanna Petroff, [“Can Europe Keep Doing Business with Iran?”](#), *CNN Money*, May 09, 2018.

These developments have placed India in a difficult situation given its growing strategic partnership with the US, on the one hand, and strong bilateral ties with Iran, on the other. It faces a pre-JCPOA-like situation – having to deal with the US pressure while simultaneously working to secure its interests vis-à-vis Iran.⁸ Most importantly, the US insistence on not renewing the waiver or SRE on Iranian oil imports poses a challenge for New Delhi as Iran is India's third largest oil supplier. In the light of these developments, this Issue Brief examines the circumstances of the growing US-Iran tensions, the nature of economic sanctions on Iran, and how they will affect India and its relations with Iran. It further reflects on the challenges and options for India to deal with the emerging situation.

US-Iran Problems

The US and Iran are at loggerheads since the 1979 Islamic Revolution, which witnessed the overthrow of the Shah, an American ally in the Middle East, and brought Iran under a clerical regime antagonistic to the US and its involvement in regional politics.⁹ US sanctions in the 1980s and 1990s were intended to check Iran's regional activities and compel it to cease support for terrorism. After the discovery of Iran's clandestine nuclear programme, the US focus shifted to preventing Iran from acquiring nuclear weapons. Thus, the Iran Non-proliferation Act (later renamed Iran-North Korea-Syria Non-proliferation Act) was enacted to prevent transfer of material and technology that can help Iran acquire weapons of mass destruction (WMDs). But despite US sanctions, International Atomic Energy Agency (IAEA) reports detailing Iran's violation of the Non-Proliferation Treaty (NPT) which it had signed in 1970, and UNSC resolutions imposing sanctions, Iran continued to pursue and expand its nuclear programme. The statement of Iranian leaders on various occasions that their nuclear programme is only meant for civilian purposes and that the country is not developing nuclear weapons did not convince the US and the international community of Iranian intentions, especially as Tehran continued to drag its feet on opening all its nuclear facilities for inspection by the IAEA.

Nonetheless, an antagonistic relationship between the US and Iran did not prevent them from coordinating foreign policy moves in case of need such as in post-war Iraq and Afghanistan. Such occasional coordination, however, did not lead to negotiations on Iran's controversial nuclear programme until the advent of Barack Obama. Guided by prevailing foreign policy debates in the US on the need to "pivot to Asia" and cater for the larger strategic challenge posed by a rising China¹⁰ and get out of

⁸ Uma Purushothaman, "American Shadow over India-Iran Relations," *Strategic Analysis*, 36 (6), 2012, pp. 899-910.

⁹ Darioush Bayandor, *The Shah, the Islamic Revolution and the United States*, Cham, Switzerland, Palgrave Macmillan, 2019.

¹⁰ For a sense of the debate and the shift in US policy see: "[Remarks by President Obama to the Australian Parliament](#)" *The White House Archives*, November 17, 2011. Also see: Hillary Clinton, "[America's Pacific Century](#)", *Foreign Policy*, October 11, 2011.

the quagmires in Afghanistan and Iraq, Obama decided to recalibrate US policy towards the Middle East including Iran.¹¹ As a result, the US joined the P5+1 (representing five members of the UNSC plus Germany) efforts to curb Iranian nuclear activities through negotiations. After a series of UN resolutions, international economic sanctions, IAEA investigation of Iranian nuclear facilities and several rounds of negotiations, hope arose of a deal between P5+1 and Iran. In the meanwhile, Washington and Tehran engaged in secret negotiations facilitated by Oman to come to an understanding on the nuclear programme and the easing of economic sanctions.¹² The election of a moderate to the Iranian presidency in 2013 led to the opening of direct channels of communication and a breakthrough came on September 27, 2013 when President Obama held a telephonic conversation with the newly sworn-in President Hassan Rouhani. Reportedly, the two discussed the possibilities of reaching a “comprehensive resolution.”¹³

On July 14, 2015, the P5+1 and Iran signed the JCPOA to restrict Iran’s nuclear enrichment activities and prevent Tehran acquiring nuclear weapons capability in the immediate future.¹⁴ Subsequently, UNSC resolution 2231 was adopted, endorsing the JCPOA and affirming that full implementation will lead to the lifting of economic sanctions.¹⁵ While the international community responded positively to the developments and termed the JCPOA as a step in the right direction to resolve the standoff on Iran’s nuclear programme, two important regional countries in the Middle East, Israel and Saudi Arabia, disagreed.¹⁶ While Israel openly criticised the move, Saudi Arabia conveyed its displeasure by starting its own civilian nuclear programme. Nonetheless, both sides continued to implement the provisions of the deal, though some Iranian actions, especially its testing of medium-range ballistic missiles in 2015 and 2016, raised concerns in the US and EU over Iranian commitments.¹⁷ But the Obama administration did not take any drastic measures and continued to ease sanctions on Iran as part of its commitment to the JCPOA.

US Withdrawal from JCPOA

The victory of Donald Trump, a fierce critic of the nuclear deal, in the 2016 presidential elections created serious doubts about the possibility of the US continuing with the JCPOA. These fears were proved right when on May 08, 2018,

¹¹ David Rothkopf, [“Obama’s Pivot to Iran”](#), *Foreign Policy*, January 29, 2015,

¹² Jay Solomon and Carol E. Lee, [“U.S.-Iran Thaw Grew from Years of Behind-the-Scenes Talks”](#), *The Wall Street Journal*, November 07, 2013.

¹³ Jeff Mason and Louis Charbonneau, [“Obama, Iran’s Rouhani Hold Historic Phone Call”](#), *Reuters*, September 28, 2013.

¹⁴ Arun Vishwanathan, “Iranian Nuclear Agreement: Understanding the Nonproliferation Paradigm,” *Contemporary Review of the Middle East*, 3 (1), 2016, pp. 3-22.

¹⁵ [“Resolution 2231 \(2015\) on Iran Nuclear Issue”](#), *United Nations Security Council*, July 20, 2015.

¹⁶ Ashish Kumar Sen, [“Strange Bedfellows: Saudi Arabia, Israel Oppose Iran Nuclear Deal for Different Reasons”](#), *Atlantic Council Blogs*, March 16, 2015.

¹⁷ Louis Charbonneau, [“U.S. Confirms Iran Tested Nuclear-capable Ballistic Missile”](#), *Reuters*, October 16, 2015.

President Trump announced the decision to withdraw from the deal, accusing the Iranian regime of pursuing a regional agenda of harming core US interests in the Middle East. Announcing the decision, President Trump termed the Iranian regime as “the leading state sponsor of terror” and argued that Tehran “exports dangerous missiles, fuels conflicts across the Middle East, and supports terrorist proxies and militias such as Hezbollah, Hamas, the Taliban, and al Qaeda.”¹⁸ He also termed the JCPOA as “defective at its core” since it would have allowed Iran to eventually acquire nuclear weapon capability even if Tehran were to fully comply with its provisions.

Iran, on the other hand, continued to abide by the JCPOA but on the first anniversary of the US withdrawal from the deal on May 08, 2019 warned the other signatories, namely UK, France, Germany, Russia and China to take concrete measures to reduce the impact of US sanctions on the Iranian economy in the next 60 days, failing which it might be forced to retract from the agreement.¹⁹ The statement attracted criticism from European countries that wish the remaining parties to continue abiding by the agreement.²⁰ However, developments since the US withdrawal from JCPOA have created serious doubts about its sustainability and have raised tensions between the US and Iran.

Broadly, there are three contentious issues that led to the current impasse. First and foremost is the Iranian nuclear issue. While Iran has always maintained that its nuclear programme is for civilian and peaceful purposes, the US and its allies in the region refuse to believe that Iran’s programme is only meant for producing electricity or for medical purposes.²¹ However, no independent international agency including IAEA has corroborated the US-Saudi-Israeli fears in this regard. For instance, the February 2019 IAEA report on verification and monitoring of the Iranian nuclear programme states that Iran continues to abide by the provisions of the JCPOA and that there is no reason for any doubts on secret or unverified nuclear facilities that might violate Iran’s non-proliferation commitments.²² Yet, the US, Israel and Saudi Arabia refuse to fully believe both the guarantees given by the Iranian regime and reports produced by the IAEA, and claim that Iran has secret facilities in violation of the NPT and UNSC Resolution 2231.

Secondly, the US has raised serious concerns on Iran’s missile programme. Iran has a robust military establishment that has developed medium- and long- range ballistic missile capabilities. Even after signing the JCPOA, Iran continued to develop and test ballistic missiles. In October 2015, Iran test-fired the medium range *Emad*

¹⁸ [“Remarks by President Trump on the Joint Comprehensive Plan of Action”](#), *The White House*, May 08, 2018.

¹⁹ Note 4.

²⁰ Keith Johnson and Robbie Gramer, [“Iran Sends a Threat, and Europe Scrambles”](#), *Foreign Policy*, May 08, 2019.

²¹ [“Israel’s Iran Documents Show Nuclear Deal ‘was Built on Lies’”](#), *BBC News*, May 01, 2018.

²² [“Verification and monitoring in the Islamic Republic of Iran in light of United Nations Security Council resolution 2231 \(2015\)”](#), Report by the Director General, No. GOV/2019/10, *International Atomic Energy Agency*, February 22, 2019.

ballistic missile in violation of UNSC resolution 1929 (2010). Despite US sanctions on several individuals associated with the programme and concerns raised by several countries and the United Nations, Iran continued to develop its missile programme and test fired more missiles – *Qadr* medium-range ballistic missile in March 2016 and *Khoramshahr* medium-range ballistic missile in January 2017. Iran defends its ballistic missile programme as meant for national security and not in violation of UNSC Resolution 2231 since the missiles are not capable of carrying nuclear warheads.²³

The third contentious issue is Iran's regional military expansionism and support for non-state actors including Hezbollah, Hamas, Ansar Allah, Iraq's Popular Mobilization Unit (PMU) and Shia militias in Syria. The US and its regional allies see this as threatening their national security and regional interests. While the Obama administration ignored the concerns of Riyadh and Tel Aviv and continued engaging with Iran, the Trump administration has taken the concerns of US allies seriously. In Trump's view, Iranian military expansionism and support for Islamist militias undermine US national interests and threaten Israeli and Saudi security, and hence should be curbed.

Unilateral US Sanctions on Iran

After withdrawing from the JCPOA, the Trump administration reimposed economic sanctions on Iran including on its export of crude oil which came into full effect on November 05, 2018.²⁴ However, a waiver was offered to eight countries on importing Iranian oil for 180 days, which came to an end on May 02, 2019. In April 2019, the US decided not to renew the waivers and designated the Iranian Revolutionary Guard Corps (IRGC) including its elite Qods Force as a Foreign Terrorist Organisation (FTO). To further tighten the noose on Iran's sources of revenue, Trump signed an executive order on May 08 to "impose sanctions with respect to Iran's iron, steel, aluminum, and copper sectors," considered to be its "largest non-petroleum-related sources of export revenue".²⁵ As mentioned earlier, the US has also threatened to impose secondary sanctions on entities that engage in business activities with Iranian businesses, sectors or individuals listed under US sanctions.

These are comprehensive sanctions intended to apply "maximum pressure" on Iran, help curb its nuclear, missile and regional military activities, and compel it to seek renewed negotiations with the Trump administration. Resultantly, Iran has been facing extreme economic troubles as many international companies that had started doing business in Iran in the aftermath of the signing of the JCPOA in 2015 have left

²³ ["Iranian Missile Serve Self-defense Purposes: FM Zarif"](#), *Press TV*, February 20, 2017.

²⁴ For details on economic sanctions, see Kenneth Katzman, ["Iran Sanctions"](#), *CRS Report*, No. RS20871, April 22, 2019.

²⁵ ["Statement from President Donald J. Trump Regarding Imposing Sanctions with Respect to the Iron, Steel, Aluminum, and Copper Sectors of Iran"](#), *The White House*, May 08, 2019.

or are contemplating leaving the country to avoid being penalised by the US. Iran's exports have been curbed, causing a decline in state revenues and the Iranian Riyal has devalued leading to a sharp rise in inflation, estimated at 40 to 50 per cent in March 2019.²⁶ Curbs on the iron & steel and manufacturing sectors have led to a significant drop in economic growth and loss of jobs. Reflecting on the issue in an address to a gathering of political activists in Tehran on May 11, President Rouhani compared the current situation to the conditions that prevailed during the 1980-88 Iran-Iraq War.²⁷

Economic troubles and inability to provide relief to the Iranian people suffering from hardships had caused unrest even before the reimposition of US sanctions. Nonetheless, analysts believe that the regime has the ability to deal with economic troubles given past experience of surviving under harsh international sanctions.²⁸ Iran is likely to employ the coping mechanisms used in the past to mitigate the impact of sanctions. This means that the intended effect of the sanctions can be reduced through informal business activities as well as special arrangements for financial transactions with interested Russian, Chinese, European, Turkish and Indian companies.

India-Iran Relations

India has strong bilateral relations with Iran. In addition to cultural and historical links, the two countries look at each other as important regional actors who have contributed positively to stability in their respective regions.²⁹ New Delhi and Tehran have maintained robust political engagements since the 1990s. During his visit to Iran in May 2016, Prime Minister Narendra Modi and President Rouhani had agreed to strengthen the relationship drawing upon historical linkages and geographical proximity.³⁰ The same sentiments were reflected when President Rouhani visited New Delhi in February 2018.³¹ At the moment, the core of the relationship lies in strong bilateral trade, crude oil imports from Iran and cooperation in the development and operationalisation of the Chabahar Port. As reflected in Table 1, Iran is one of India's major trading partners and accounts for nearly two per cent of its foreign trade.

²⁶ [“Iran Inflation could Reach 40% this Year as Economy Shrinks Further”](#), *The Economic Times*, April 29, 2019.

²⁷ [“President in a Meeting with Political Activists”](#), English translation of Iranian President Hassan Rouhani's speech during a meeting with political activists in Tehran, *Official Website of the President of Islamic Republic of Iran*, May 11, 2019.

²⁸ Keith Johnson, [“Iran's Economy is Crumbling, But Collapse is a Long Way Off”](#), *Foreign Policy*, February 13, 2019.

²⁹ Meena Singh Roy, [“Modi's Visit to Iran: Will it provide a New Momentum to Bilateral Relations?”](#), *IDSA Issue Brief*, May 16, 2016.

³⁰ [“India - Iran Joint Statement- ‘Civilisational Connect, Contemporary Context’ during the visit of Prime Minister to Iran”](#), *Ministry of External Affairs, Government of India*, May 23, 2016.

³¹ [“India-Iran Joint Statement during Visit of the President of Iran to India”](#), *Ministry of External Affairs, Government of India*, February 17, 2018.

Table 1: India-Iran Bilateral Trade (US\$ Million)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 (April-February)
India's Exports to Iran	4,971.35	4,175.06	2,718.51	2,379.61	2,652.37	2,916.46
India's Imports from Iran	10,307.16	8,955.02	6,278.75	10,506.51	11,111.52	12,724.19
Total bilateral Trade	15,278.51	13,130.08	9,060.26	12,886.12	13,763.89	15,640.65
Share in India's Total Trade	2.00	1.73	1.41	1.95	1.79	2.69

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Energy is the most important component of bilateral trade and Iran contributes significantly to India's energy security. Iran has been one of the top three suppliers of crude oil to India for over a decade, except during the period 2011-15 when it was under international sanctions. Even then, India was able to get waivers from the US during the Obama administration. According to the *BP Statistical Review of World Energy 2018*, India's dependence on crude oil imports to meet its domestic consumption is an extremely high 95 per cent.³² In 2017, India's total crude oil consumption was 222.1 million tons (MT) or 4.69 million barrels per day (bpd), and of this 211.1 MT or 4.24 bpd was imported. In 2018-19, of India's total crude imports of 226.45 MT worth US\$12.11 billion, 23.9 MT accounting for 10 per cent was from Iran.³³ Moreover, India also buys natural gas from Iran and hence the total value of energy imports from Iran is even higher, accounting for 80-85 per cent of its overall imports from Iran as reflected in Table 2.

³² [British Petroleum](#), *BP Statistical Review of World Energy*, June 2018.

³³ [Directorate General of Commercial Intelligence and Statistics](#), Ministry of Commerce and Industry, Government of India.

Table 2: India-Iran Energy Trade (US\$ Million)

Year	Oil Imports from Iran	Total Oil Imports	Iranian Share in Total Oil Imports	Imports from Iran	Per cent of Oil in Imports from Iran
2013-14	8,556.95	181,382.59	4.72	10,307.16	83.02
2014-15	7,292.13	156,400.01	4.66	8,955.02	81.43
2015-16	4,461.57	96,953.06	4.60	6,278.75	71.06
2016-17	9,006.29	103,163.20	8.73	10,506.51	85.72
2017-18	9,232.61	132,294.61	6.98	11,111.52	83.09
2018-19 (April to February)	11,663.15	-	-	12,724.19	91.66

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India.

The third most important aspect in bilateral relations is India's involvement in the development and operationalisation of the Chabahar Port. India deems the port as a gateway for its trade with Afghanistan and Central Asia. India, Iran and Afghanistan signed a trilateral agreement during the visit of Prime Minister Modi to Tehran in 2016 to develop the port as a transit and transport corridor. India also signed an agreement with Iran committing investments worth US\$ 85 million for the development of the port.³⁴ In February 2018, when President Rouhani visited New Delhi, India Ports Global Limited (IPGL)³⁵ and Iran's Port and Maritime Organisation signed a lease contract for the operationalisation of Phase-1 of the Chabahar Port underlining the strengthening cooperation between the two countries.³⁶

Impact of Sanctions on India

As noted earlier, the US has refused to renew the SREs issued for eight countries including India. This means that Indian companies will either have to stop buying oil from Iran or resort to a Rupee payment mechanism as was done in the past.³⁷

³⁴ "[India-Iran Relations](#)", Ministry of External Affairs, Government of India, August 2017.

³⁵ A consortium of Jawaharlal Nehru Port Trust, Mumbai and Deendayal Port Trust, Kandla tasked by Government of India to equip and operate Container and Multipurpose Terminal at the Chabahar Port.

³⁶ Note 28.

³⁷ Meena Singh Roy, "[India's Iran Dilemma](#)", *The Economic Times*, April 29, 2019.

However, during the pre-JCPOA sanctions period, the Obama administration had given exemptions to India on importing oil from Iran. Whereas now under the Trump administration, the likelihood is bleak for forging any informal arrangement to allow continued import of Iranian oil. According to media reports, as of May 2019, Indian oil companies have decided to not place further orders for oil imports from Iran due to US sanctions.³⁸ Though no official statement has been issued by the Ministry of External Affairs in this regard, a tweet on April 23 from the Minister of Petroleum and Natural Gas indicated that India has prepared plans for not allowing any shortfall of oil in the domestic market due to the restrictions on oil imports from Iran.³⁹

Iranian Foreign Minister, Javad Zarif, visited New Delhi on May 14 and discussed various bilateral and regional issues with External Affairs Minister Sushma Swaraj.⁴⁰ The visit acquires significance in the backdrop of Iran's diplomatic push to convince its important business and commercial partners to continue doing business with it. He also updated Swaraj on Iran's decision to suspend some of its commitments under the JCPOA and the 60-day time-line given to Germany, France, Britain, Russia and China for "restoring oil and banking channels." Swaraj reportedly informed Zarif that "India will take a call on purchase of Iranian energy after the general election."⁴¹

Other than the oil sector, India is not directly affected by US sanctions on Iran though Indian companies involved in the Iranian automobile, iron & steel and mining sectors will be affected due to additional US sanctions on these sectors. The Chabahar Port also does not come under US sanctions and hence Indian investments and involvement in it will not be affected. Nonetheless, due to sanctions on the iron & steel sector and individuals and companies associated with IRGC, certain infrastructure development projects such as the Chabahar-Zahedan railway and gas pipeline, part of Iran's plan to develop Chabahar as a transit hub between Central Asia and the world, could be affected.

India's Challenges and Options

It might not be difficult for India to meet the shortfall in crude oil imports due to US sanctions on Iran. According to forecasts by the *International Energy Agency* (IEA), global oil supply is expected to outpace demand throughout 2019 because of the surplus available in the international oil market.⁴² While US shale production is expected to grow rapidly, the higher flows from countries such as Nigeria, Libya and

³⁸ Nayanima Basu and Mahua Venkatesh, "[India Gives in to US Pressure, Fully Stops Import of Iran Oil](#)", *The Print*, May 09, 2019.

³⁹ Dharmendra Pradhan, [Twitter post](#), @dpradhanbjp, April 22, 2019, 9:41 p.m.

⁴⁰ Kallol Bhattacharjee, "[U.S. Curbs: India to Decide on Iran Crude Imports after Polls](#)", *The Hindu*, May 14, 2019.

⁴¹ Ibid.

⁴² "[Oil Market Report](#)", *International Energy Agency*, May 15, 2019.

Iraq have already offset losses from the decline in Iranian exports. Moreover, countries such as Saudi Arabia, the United Arab Emirates (UAE) and the US have publicly announced their willingness to help meet the shortfall in crude oil that India might face due to sanctions on Iran. Then there are countries such as Iraq, Kazakhstan, Nigeria, Angola, Mexico, etc. which are among the top ten sources of oil for India and have the capacity to increase production and exports in case of a rise in demand.

Therefore managing the economic aspect of continued flow of oil to India might not be difficult. The bigger challenge is the political aspect of managing relations with the US and Iran. On the one hand, if India were to stop sourcing oil from Iran, it will affect bilateral relations. Moreover, giving in completely to US pressure and cutting off Iranian oil imports does not comport with India's pursuit of an independent foreign policy and its endeavour to maintain strategic autonomy. On the other hand, if India were to continue to buy Iranian oil, say by sidestepping US sanctions, it is likely to impact the strategic relationship with the US.

Given this scenario, India has two options. One is to resort to buying Iranian oil through one or more informal arrangements including: devising a Rupee payment mechanism to overcome the sanctions; joining hands with the EU, Russia and China through the INSTEX mechanism; teaming up with a Shanghai Cooperation Organisation (SCO) initiative to defy US sanctions. If India were to undertake such a move, its multifaceted relations with the US will be hampered and the Trump administration is unlikely to look upon such a step kindly. The second and more plausible option is to continue negotiating with the US to either secure a formal waiver or to have an informal understanding to buy Iranian oil. The likelihood of the Trump administration granting an exemption is remote given that it understands that there is enough oil in the international market and wants to exert maximum pressure on Iran to change its behaviour. In the meanwhile, India can offer to Iran to enhance its investments in the Chabahar Port development project as well as consider initiating other developmental and connectivity projects to strengthen linkages to Afghanistan, the Caucasus and Central Asia. This will help India not openly defy the US or subvert its policy towards Iran but also at the same time ensure that its relationship with Iran is not completely derailed and it is also able to pursue an independent foreign policy. The bottom line is that while India can wait for the easing of US-Iran tensions to resume buying oil from Iran, it is unlikely to undermine its relationship with the US to please Tehran.

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