



How Not To Choose Among Allies

(The editorial is based on the article “How Not To Choose Among Allies” which appeared in The Hindu on 3rd November 2018. It analyses the U.S sanctions on Iran and its effects on India.)

In context please refer: [US Reimposes Sanctions on Iran](#)

In May 2012, the then U.S. Secretary of State, Hillary Clinton, visited Delhi on behalf of Western countries negotiating the **Joint Comprehensive Plan of Action or JCPOA** (the nuclear deal with Iran) to convince

India to cut its oil imports from Iran.

Eventually, India agreed to cut its imports by only about 15%. But cumulative global pressure had the desired impact on Iran, where inflation had risen more than 40% and oil exports declined from 2.5 million barrels of crude each day to about 1 million. **JCPOA negotiations that followed eventually led to a deal hailed by the United Nations.**

Unlike in 2012, the U.S.'s EU allies in 2018 are working closely with its arch rivals like Russia and China, primarily with a view to supporting trade with Tehran to ensure that the Iranian regime does not walk out of the nuclear deal.

U.S. officials have led a series of delegations to New Delhi in the last few months with a similar mission, but with a completely new and different backdrop:

- Trump administration has already walked out of the JCPOA.
- The U.S. has no support from any other country involved in the deal, and the UN has expressed grave misgivings about the decision.
- **The U.S. has given no evidence that Iran in any way violated the terms of the JCPOA** — the International Atomic Energy Agency's June report concluded that Iran's stockpile of uranium and heavy water, as well as its implementation of additional protocols, were "in compliance" with the agreement.
- **The U.S. may succeed in squeezing Iran economically, but it is increasingly getting politically isolated.**

Impact of Sanctions on Iran

- Iran being **one of the world's largest oil producers**, oil export forms the major part of Iran's trade with the rest of the world. Sanctions targeting oil exports have a deep impact on the economy of Iran.
- **US sanctions led to the crash in the value of Iranian currency Rial** and that further led to a huge inflation in Iran.
- Also, the aviation sector in Iran will be particularly hit by US sanctions. Tourism in Iran which had benefited from the nuclear deal could also be affected by renewed sanctions.
- **Fundamentalist forces in Iran were against the JCPOA, the imposition of sanctions despite adhering to the deal strengthens the radical forces which are against any engagement with the western world, the US in particular.**
- Political instability because of months-long protests in Iran over deteriorating economic conditions and charges of corruption and mismanagement. **Protesters are now targeting the government of President Hassan Rouhani, who championed the nuclear deal as a way of boosting the economy.**

Possible Options for Iran

- Learning from previous lessons, it has already increased price discounts since May, worth around USD 10-15 million a month to large importers like China and India compared with last year.
- **Iran can opt for other options such as allowing buyers to pay in kind, trade in other currencies, or extend credit - even keep the money in an escrow account in Switzerland and wait until these sanctions are over.**
- **Iran can get its oil to a friendly port, where it could be blended with oil from elsewhere and resold.**
- Iran says it will not accept major drops in its oil sales, putting pressure particularly on Europe, which was buying more than a fifth of its oil, to resist US demands.
- **The European Union said it would adhere to the deal and would ensure sanctions on Iran remain lifted as long as Tehran continues to meet its commitments. Russia and China have also said they will remain in the deal.**

Impacts on India

- **With trade levels receding, the Iranian regime may lose interest in the Chabahar option, and focus on its main port of Bandar Abbas instead, derailing India's plans for regional connectivity.**
- Another impact would be on India's investment in the Chabahar port, which would face both direct and indirect sanctions: as shippers, port suppliers and trading companies refuse to participate in the project. (It threatens India's \$500 million investment in the port and its \$2 billion plan for a railway line to circumvent Pakistan and reach Afghanistan and Central Asian trade lines.)
- Apart from Chabahar, India's interest in the International North-South Transit Corridor (INSTC), which runs through Iran, which will improve connectivity with five Central Asian republics, may also get affected.
- For India, the impact of the American sanctions plan would be manifold, regardless of the waiver as waivers are temporary.
- **Most worrying for India is that all of the above outcomes will follow regardless of whether the U.S. gives India a waiver for sanctions or not.**

- **The U.S. has said that it is only issuing temporary waivers, and the waivers are strictly linked to the condition that countries receiving them keep cutting down their purchases from Iran.**
- Along with the JCPOA-linked sanctions, India continues to face sanctions linked to the **Countering America's Adversaries Through Sanctions Act (CAATSA)**, which puts more strictures on dealings with Iran, Russia and North Korea.
- Finally, there would be an impact on India's regional security situation, which could see the Iranian-Arab divide deepen, Afghanistan's choices dwindle and an angry Iran pitched closer into the China-Russia corner.

Way Forward

- India has an extremely important and growing relationship with the US.
- Indian officials have made a beeline for Washington to discuss the reasons why India deserves a waiver, from both Iran and CAATSA sanctions.
- **The U.S. has been informed of India's energy requirement compulsions, and of the cut of about 35-50% in its oil purchases from Iran. On the CAATSA front, the U.S. has also been assured of a significant reduction in Indian defence dependence on Russia, and that no weapons procured, like the recently purchased S-400 missile system, would be used against American interests.**
- But since India also has geopolitical compulsions, and an age-old relationship with Iran as well as its Arab neighbours, **India needs to maintain a fine balance between the U.S. and Iran.**

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