



India, Iran and Chabahar Port

For Prelims: [Chabahar port](#), [International North-South Transport Corridor](#), [International trade in Indian rupees](#), [Vostro account](#).

For Mains: Significance of Chabahar Port for India, Areas of Contention Between India and Iran.

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Why in News?

India and Iran are making significant progress in **finalizing a 10-year pact for operations at the Chabahar port**, with key issues narrowing down.

- Additionally, the two nations are exploring ways to address the **depletion of Iran's rupee reserves**, which has impacted trade, especially in commodities like **rice, tea, and pharmaceuticals**.

What is the Significance of Chabahar Port for India?



- **About:**

- **Chabahar is Iran's only oceanic port.** It is situated in Sistan and Baluchistan Province, on the **Makran coast**.
- There are two main ports in Chabahar – the **Shahid Kalantari port and the Shahid Beheshti port**.
 - The Shahid Kalantari port was developed in the 1980s.
 - Iran had offered India the project of developing the Shahid Beheshti port which was well received by India.
- **Progress and Updates Regarding the Chabahar Port Deal:**
 - The two countries signed an **initial agreement in 2016** for India to develop and operate the port's Shahid Beheshti terminal for 10 years.
 - However, the **finalization of the long-term agreement has been delayed by several factors** including **differences on some clauses in the pact**.
 - One of the main sticking points was the **clause related to jurisdiction for arbitration in case of disputes**.
 - India wanted the arbitration to be held in a neutral country, while Iran preferred its own courts or a friendly country.
 - According to some recent reports, India and Iran have narrowed the gap on the arbitration issue and are looking at the **option of taking up these matters at arbitration courts in a location such as Dubai**.
 - They have also made progress on other issues, such as tariffs, customs clearance, and security arrangements.
- **Significance of Chabahar Port:**
 - **Alternative Trade Route:** Historically, India's access to Afghanistan and **Central Asia** has been largely **dependent on transit routes through Pakistan**.
 - Chabahar Port offers an alternative route that bypasses Pakistan, reducing India's reliance on its neighbor for trade with Afghanistan and beyond.
 - This is particularly important given the often-tense relations between India and Pakistan.
 - Also, Chabahar port will boost **India's access to Iran**, the key gateway to the **International North-South Transport Corridor** that has sea, rail and road routes between **India, Iran, Russia, Central Asia and Europe**.
 - **Economic Benefits:** Chabahar Port offers India a gateway to the resource-rich and economically vibrant region of Central Asia.
 - It can significantly enhance **India's trade and investment opportunities in these markets**, potentially leading to economic growth and job creation in India.
 - **Humanitarian Assistance:** Chabahar Port can serve as a crucial entry point for **humanitarian assistance and reconstruction efforts in Afghanistan**.
 - India can use the port to provide aid, infrastructure development support, and other assistance to Afghanistan, contributing to regional stability.
 - **Strategic Influence:** By developing and operating Chabahar Port, **India can enhance its strategic influence in the Indian Ocean region**, thus strengthening India's geopolitical position.

What is the Status of Economic Ties Between India and Iran?

- **Status:**
 - Over the years, India's trade with Iran has seen significant fluctuations. In 2019-20, India's imports from Iran, primarily crude oil, **fell by about 90% to USD 1.4 billion compared to USD 13.53 billion in 2018-19**.
 - Also, Iran has seen a depletion of its **rupee reserves in the vostro account**, affecting its ability to import key Indian commodities like basmati rice and tea.
- **Revival:**
 - To revive **trade between India and Iran**, which has been impacted by **US and Western sanctions**, both nations are considering the option of **rupee-rial trade**.
 - This move aligns with the **Reserve Bank of India's** decision to allow **invoicing and payments for international trade in Indian rupees in July 2022**.
 - Rupee-Rial trade refers to trade between India and Iran using their **respective currencies, the Indian Rupee (INR) and the Iranian Rial (IRR)**, instead of using widely accepted international currencies like the US Dollar (USD).

- This type of trade is often used when international sanctions or restrictions make it difficult for **countries to use global currencies for trade with a particular nation**, as was the case with Iran due to US sanctions.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. What is the importance of developing Chabahar Port by India? (2017)

- (a) India's trade with African countries will enormously increase.
- (b) India's relations with oil-producing Arab countries will be strengthened.
- (c) India will not depend on Pakistan for access to Afghanistan and Central Asia.
- (d) Pakistan will facilitate and protect the installation of a gas pipeline between Iraq and India.

Ans: (c)

Mains

Q. In what ways would the ongoing U.S-Iran Nuclear Pact Controversy affect the national interest of India? How should India respond to this situation? (2018)

Q. The question of India's Energy Security constitutes the most important part of India's economic progress. Analyse India's energy policy cooperation with West Asian countries. (2017)

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