

India and Iran: Limited Partnership, High Stakes

In recent months, India's ties with Iran have come under pressure as the civil-nuclear deal falters in New Delhi. Although maintaining positive relations with Washington is a critical foreign policy objective, India's relations with Iran are important for reasons such as energy supply, geopolitics, and a symbol of India's ability to retain an independent foreign policy or "strategic autonomy." Although India and Iran share energy interests and some regional goals, there continues to be a wide gap between words and deeds.

What they want: India's major interest in the Middle East is energy, and Iran is a major supplier. In addition, Iran's location gives it particular strategic importance for India. Unlike Pakistan, Iran is willing to give India land access to Central Asia and Afghanistan, a region in which India seeks to exert greater influence. India wants access to Central Asia through Iran mainly to diversify its sources of energy imports and expand exports. Also, successive Indian governments have assumed that the Shia population, a significant portion of India's 15 percent Muslim minority, values close ties with Iran.

For Iran, India represents an alluring market for oil and gas. India's growing regional influence and its insistence on an independent role in global affairs, particularly its resistance toward downgrading its ties with Iran despite pressure from the United States, makes it an attractive regional partner. Iran sees relations with India as a potential vehicle for reclaiming the high-profile role it enjoyed in regional affairs during the reign of the Shah.

Framework for regional ties: India-Iran relations have relied heavily on high-level visits and broad

declarations of goals. The most prominent in recent years was the New Delhi Declaration of 2003, signed when former president Mohammad Khatami was the chief guest at India's annual Republic Day parade. The declaration promised a cooperative relationship and established a strategic dialogue. It also set forth goals regarding energy and defense cooperation. Such declarations are fairly common in India's foreign relations, but they vary greatly in the degree to which they lead to concrete action. In this declaration, and in other official material on India-Iran relations, India places great stress on the "civilizational" ties between the two countries—a connection going back into ancient history. In this context, continuing a close relationship with Iran serves India's ambitions of being a global player.

Major oil source: India's international energy strategy has been two-fold: diversifying sources of supply and increasing India's stake in overseas production facilities. Although oil is not India's primary energy source—70 percent of India's energy needs are met by coal—oil is still India's major energy import. India currently imports over 70 percent of its oil, and some experts believe that this number will rise to 90 percent in the next two decades.

Iran is a major supplier of energy to India. According to figures from the Planning Commission of India, India imported approximately 9.61 metric tons of oil from Iran in 2004–2005. This accounts for approximately 10 percent of India's total oil imports, making Iran India's fourth-largest source of imported oil. India's phenomenal economic growth and limited coal reserves are going to fuel an exponential increase in dependence on imported oil, therefore energy supplies will remain a major economic and strategic issue in India's engagement with Iran.

Will natural gas trade develop? India is trying to shift its energy usage toward natural gas, especially for electricity generation. Iran is a tremendous potential source of natural gas, but it has yet to be realized. India has signed a Memorandum of Understanding (MOU) with Iran for natural gas trade related to the potential development of the South Pars field—phase 12 by the Indian Oil Corporation and Iran’s Petropars. The proposal was changed several times following the withdrawal of other participants and complaints by Iran’s national oil and gas company (NIOC) regarding Petropars’s involvement with the Indian Oil Corporation. The MOU expired on October 31, 2007, and has yet to be renewed.

In the absence of a pipeline, the only way for India to import natural gas from Iran is to ship liquefied natural gas (LNG). India’s domestic LNG import infrastructure can handle additional volume, but Iran does not have liquefaction plants. Furthermore, India’s import arrangements with Qatar, currently its sole supplier, are well below the price Iran would expect to be paid. For the time being, it appears unlikely that the Indian government will be willing to pay for imports from Iran or to finance a liquefaction port. However, this issue is likely to remain on the table, especially as India begins to face higher prices for LNG.

Pipeline or pipe dreams? The most controversial development regarding energy trade between India and Iran has been the 1,700-mile pipeline that would bring natural gas from Iran to India via Pakistan, commonly known as the I-P-I (Iran-Pakistan-India) pipeline. The pipeline deal could be economically advantageous for all three countries, but there are considerable political and commercial obstacles in the way of concluding negotiations.

Although both India and Pakistan have formally supported the idea, negotiations on the pipeline have been difficult thus far. India has long been ambivalent about the pipeline. Senior security officials in India have serious doubts about importing a commodity as critical as natural gas via Pakistan. At the same time, the Indian government does not want to disavow interest in the pipeline lest it be accused by its domestic critics of bowing to U.S. pressure on Iran. Pakistan has been willing to continue pipeline discussions with India without waiting for progress on the thorny Kashmir issue, which has helped persuade India to inch forward

in negotiations. In the context of India-Pakistan relations, one motivation for continuing talks is the hope that the two countries’ shared interest in this major piece of strategic infrastructure will act as a deterrent to future conflicts, in the way that their common interest in the Indus waters has done.

There are also significant commercial hurdles to the \$7-billion pipeline that have not yet been resolved. The three-way negotiations have not settled who will finance the construction of the pipeline. Moreover, the parties involved have different expectations when it comes to prices. Iran has traditionally assumed that it can dictate prices to the other two; Pakistan is well aware of its central geographic location, which gives it considerable leverage; and India wants a reasonable price for its energy imports, particularly since it expects energy demands to rise steadily in the next decade. In 2007, Iran and Pakistan reached a tentative agreement on price, but since India did not participate in these talks, the Iran-Pakistan accord cannot be considered final. Most importantly, both India and Pakistan are likely to require special arrangements for mitigating the political risk should relations sour. Although devices, such as escrow accounts and special guarantees, are possible solutions to these problems, no arrangements have yet been negotiated.



Source: Embassy of Iran in New Delhi

The United States has taken a strong stand against the pipeline, hinting that if negotiations continue it will trigger sanctions under the Iran-Libya Sanctions Act, which would directly impact investments of over \$40 million annually in Iran’s energy infrastructure. The United States has taken a hard line in discussions with India but has made relatively little effort to dissuade Pakistan from working on the pipeline.

Limited defense and technology relations: Iran is interested in developing a solid defense relationship with India, but at present this desire has yet to be translated into real terms. In 1993, India provided assistance to Iran by adapting its Russian-supplied Kilo-class submarines for use in warm waters and

developing new batteries for the submarines. Iran is interested in Indian assistance with other upgrades to Russian-supplied equipment, including MiG-29 fighters, warships, subs, and tanks, but so far India has not provided any assistance. A naval cadet training ship has visited India, and in 2007 the Indian government allowed a limited number of Iranian officers to participate in joint training courses with officers from several other countries. In 2006, there were two limited naval exercises that took place while senior U.S. officials were visiting India, embarrassing timing from the perspective of U.S.-India relations.

Beyond these limited interactions, most of the reports of Indo-Iranian military ties appear to be either rumors or political theater.

Iran as a symbol of India's foreign policy independence: The political sensitivity of the Indian government toward Iran derives mainly from the way different political parties have interpreted Iran as a symbol of something larger than itself. Perhaps the most emotive foreign policy issue in India is the concept of “strategic autonomy,” which the Indian body politic defines as a foreign policy that is not excessively influenced by its outside friends, including the United States. The appeal of this brand of foreign policy independence—which can be linked back to the nonaligned movement of the 1970s and India's colonial history—continues to find resonance within the political classes. Policy toward Iran is regarded as the bellwether of strategic autonomy by India's leftist parties, on whom the present government depends on for its majority in Parliament, and to some degree, by traditional politicians from the Congress Party. As a result, confrontations with Iran are politically costly to India's political leaders. Even on issues where India and the United States share similar views with respect to Iran, such as ensuring that Iran does not develop nuclear weapons, both governments will differ on how to pursue such goals in the political and public arena.

India is very conscious of its other equities with Iran. Even on the nuclear issues, where India voted with the United States against Iran on two resolutions of the International Atomic Energy Agency (IAEA), India's approach has focused on holding Iran accountable to its international commitments rather than isolating Iran. Indian officials have asserted that Iran has a right to develop nuclear technology for peaceful use, as long as

it honors its international obligations. This has resulted in a policy that sounds contradictory and indecisive to Washington.

The road ahead: Iran will remain a complicating factor in the U.S.-India partnership. India's actual strategic interests in Iran—energy trade and land access to Central Asia—have caused relatively little heartburn in Washington. The issues that have aroused the greatest concern in the U.S. Congress, particularly the defense ties between the two countries, appear to have relatively little substance at this point.

The most difficult issues have been those involving perceptions and symbolism. These are not issues that can easily be confronted or negotiated away. India and the United States need the experience of working together, especially on mutual security issues. In this process, one hopes that India will come to appreciate that the United States is dealing with India on the basis of equality, and the United States will develop a more nuanced understanding of how India looks at Iran. This is the kind of detailed understanding that is required to deepen trust in both Washington and Delhi.

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