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**Despite Sanctions, India Poised to Deepen its Energy Partnership with Iran**

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On November 5, 2018, Washington granted India, along with seven other countries, a waiver from sanctions on oil purchases from Iran. The waiver allows for India to purchase 1.25 million tonnes per month, approximately equivalent to 300,000 barrels per day (bpd). In December 2018, India imported 302,000 bpd, representing a 41 percent drop in imports. While an apparent success for U.S. sanctions against Iran, New Delhi's exploitation of the sanctions to extract more favorable terms from Tehran has served to draw Iran deeper into the Indian economy and may open Iran's vast natural gas resources to the Indian energy market.

As of December 2018, India began purchasing oil with free shipping, 60-days extended credit, and entirely in rupees. In a complex barter system, Iran can use its petro-rupees to pay for food grains, medicines, and medical devices from India. Iran can also use the rupee-based revenue for direct investments in Indian infrastructure projects as well as purchasing Indian government debt securities. It is the first time that India has used an entirely rupee-based system for Iranian oil imports. During the previous sanctions period, India paid for 45 percent of its Iranian oil imports in rupees and the remaining 65 percent in Euros. The 100 percent rupee mechanism will help New Delhi to restrain the devaluation of its currency and, with Iran's purchase of Indian products, redress India's trade balance with Tehran.

New Delhi has also exempted the National Iranian Oil Company (NIOC) from the 40 percent withholding tax levied on foreign companies receiving payments in Indian Banks. The exemption enabled Iran to receive over \$1.5 billion in payments being held by India oil refiners for oil purchases made during November and October 2018.

The oil relationship between Iran and India is far from reciprocal. Iran needs India as a purchaser more than India needs Iran as a supplier. Aside from an exceptional spike during 2016-2017, Iranian crude oil has consistently comprised only 7-10 percent of India's import supply mix since 2010. However, in the same period, India constituted Iran's second largest export market. Second only to China as the largest foreign consumer of Iranian oil, Indian purchases have reached between 20 and 23 percent of Iran's total crude oil exports.

New Delhi has used the asymmetry in its oil relationship to extract concessions from Tehran to help the energy-starved giant maintain its 7.4 percent rate of economic growth. The highly affordable crude oil imports from Iran help to ensure India's security of supply. While the waiver period was intended to provide India with sufficient time to find alternative suppliers to replace its crude oil imports from Iran, there are no overt indications that India has done so. On the contrary, India also seeks to exploit its importance as a consumer of Iranian oil to develop a position in Iran's natural gas industry, both as a developer of Iranian fields and as a consumer of Iranian gas.

During the time Iran was negotiating with the P5+1 nations that would lead to the July 2015 "Nuclear Deal" (formally known as the Joint Comprehensive Plan of Action or JCPOA), New Delhi was lobbying Tehran to develop Iran's Farzad-B offshore natural gas block. After Iran had rejected India's May 2015 offer, New Delhi made a renewed effort to woo Tehran's approval with ONGC Videsh Ltd. (OVL), the overseas arm of India's state-owned Oil and Natural Gas Corporation, offering concessions on cost recovery and capital expenditure to secure the Farzad-B contract.

In 2008, OVL discovered natural gas in the block, now estimated to hold 759 billion cubic meters of in-place reserves. One of the two 40 percent stakeholders in the gas block, OVL became the operator for Farzad-B's development. Yet, under pressure from the United States and facing difficulties obtaining technology and financing due to international sanctions against Iran, OVL and its two Indian partners delayed the \$8 billion project. India was forced to surrender Farzad-B to Iran, which put the block back up for auction in 2014.

Under pressure from the United States during the previous sanctions regime, India similarly withdrew from the Iran-Pakistan-India pipeline project slated to bring 11.3 billion cubic meters of Iranian natural gas per year to India. Although Iran built its section of the pipeline to the Pakistani border, the fate of what became simply the Iran-Pakistan (IP) pipeline remained in limbo – that is, until China revived the IP pipeline by agreeing to construct most of Pakistan’s portion. Less than three weeks after the April 2, 2015 Framework Agreement between Iran and the P5+1 nations that led to the JCPOA, Beijing signed an agreement with Islamabad to construct the bulk of the Pakistani segment of the IP pipeline, from Pakistan’s Chinese-built Gwadar port to Nawabshah, where it can join Pakistan’s domestic gas distribution network. For its part, Pakistan has promised to construct the remaining 80 km of the pipeline from Gwadar to the Iranian border once sanctions end.

The IP pipeline agreement is part of a \$46 billion infrastructure package to establish the China-Pakistan Economic Corridor (CPEC), extending from the Chinese-administered Gwadar port on Pakistan’s Indian Ocean coast to China’s westernmost city Kashgar (Kashi) in Xinjiang. A subsidiary of the state-owned China National Petroleum Corporation is constructing the pipeline financed by a \$2 billion Chinese loan, covering 85 percent of the construction cost.

For China, the IP pipeline is an energy geopolitics masterstroke, advancing China’s Silk Road Economic Belt and Maritime Silk Road initiatives (now collectively termed the Belt and Road Initiative or BRI). Most critically, the IP pipeline potentially can be extended to China’s western border, allowing for the transport of Iranian gas via Pakistan to China’s vast northwestern province of Xinjiang. Home to the restive Uighur minority, Beijing needs reliable gas supplies to rapidly develop the province to secure its integration within China and to establish it as China’s BRI gateway to Central Asia.

Far from standing idly by and watching Beijing orient the flow of gas exports from Iran to China, New Delhi is responding with a grand initiative of its own called the International North-South Transit Corridor (INSTC), whose centerpiece is India’s construction of Iran’s first deep-water port to meet modern shipping standards at Chabahar, 72 km west of Gwadar. Another project that India had suspended under U.S. pressure, India has recommitted itself to the construction of the Chabahar port along

with road and rail routes running north through Iran and Afghanistan to create the most cost-effective transportation corridor for European-Indian Ocean trade. Compared to the conventional Indian Ocean-Europe transport route through the Red Sea, Suez Canal, and the Mediterranean Sea, the Chabahar-based INSTC is estimated to be 40 percent shorter and will reduce Indian trade costs by 30 percent.

The Chabahar port is also inextricably linked to India's receiving piped natural gas imports from Iran, as the port would also serve as the point of origin for the proposed Iran-India pipeline that would transport the same 11.3 bcm annual volume of Iranian natural gas India was slated to receive from the erstwhile Iran-Pakistan-India pipeline

The 2015 negotiations over India's development of Farzad-B reportedly include a proposal for swapping gas produced at Farzad with gas produced from other Iranian fields that can be sent to Chabahar and then transported by pipeline to India. On July 25 2015, Alireza Kameli, managing director of the National Iranian Gas Exports Company, [told Iran's Shana Energy News Agency](#) that he was prepared to negotiate a gas export contract with South Asia Gas Enterprises (SAGE) Ltd., which has been at the forefront of developing plans for what it calls the Middle East to India Deep-water Pipeline (MEIDP), connecting Iran to India via Oman.

On February 5, 2019, [Iran's Tasnim Agency reported](#) that Iran's Minister of Petroleum Bijam Zanganeh announced that Russia would construct the undersea pipeline from Iran to India. Zanganeh revealed that Russia's Minister of Energy and Russian energy giant Gazprom signed a memorandum of understanding for the pipeline's construction during Russian President Vladimir Putin's November 2017 visit to Iran. India and Russia already enjoy a robust energy partnership with each country heavily invested in the other's energy sector. Whether the pipeline will actually be constructed by Russia and to what extent India will be involved in the construction remain to be seen. However, the establishment of a dedicated undersea pipeline for Persian Gulf gas exports to India would fundamentally reconfigure the pattern of energy relationships across the Arabian Sea and solidify the already re-emerging Iranian-Indian strategic partnership.

On February 26, India and Iran will celebrate 'Chabahar Day' with trade exhibition to demonstrate the business potential of the proposed economic zone around the Indian-operated port. Despite India's apparent compliance with U.S. sanctions on Iran, New Delhi seems poised to start a deeper level of strategic cooperation with Tehran in energy and commercial transportation.

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