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## Iran's Role in India's Energy Calculus



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Energy plays a vital role in a country's economic growth and security. The availability, accessibility and affordability of energy sources and commodities predominantly determine the future economic growth of a nation. Quoting Daniel Yergin from his book *The Prize*,

Energy is the basis of industrial society. Of all the energy sources, oil has loomed the largest and most problematic because of its central role, its strategic character, its geographic distribution, the recurrent pattern of crisis in its supply- and the inevitable and irresistible temptation to grasp for its rewards.<sup>1</sup>

Tracing back to the fall of 1973 when the first oil shock hit the Western economies, it paved way for prioritising energy security which became a pre-requisite for the developing world in the coming decades.<sup>2</sup> Following the oil embargo proclaimed by Arab countries, there were price fluctuations and political disturbances in the Middle East. This resulted in the world witnessing a strong presence of the Arab faction of the Organisation of Petroleum Exporting

### *Key Points*

1. Since the late 1990s, there seems to be an increasing demand for oil from the Gulf region, especially in Asia, with China and India emerging as major consumers.
2. India's oil dependency on the Gulf nations exceeds more than 84 per cent—mainly from Saudi Arabia, Iraq, and Iran (until May 2019). By the time sanctions were re-employed, India's dependency on Iran had reduced from 2.5 billion tonnes in a month to 1 million tonnes.
3. The US sanctions on Iranian oil compelled India to depend on other options, although the proximity and transactional system with the Persian state was economically favourable.
4. The growing influence of China in the region and especially with Iran is a vital concern for India.
5. The relation between India and Iran is not only limited to oil trade but also in the development of Chabahar port.

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Countries (OPEC) into the international market. By the end of that decade, another oil shock along with the Iranian Revolution of 1979 reinforced energy security concerns.<sup>3</sup> However, these were just starters.

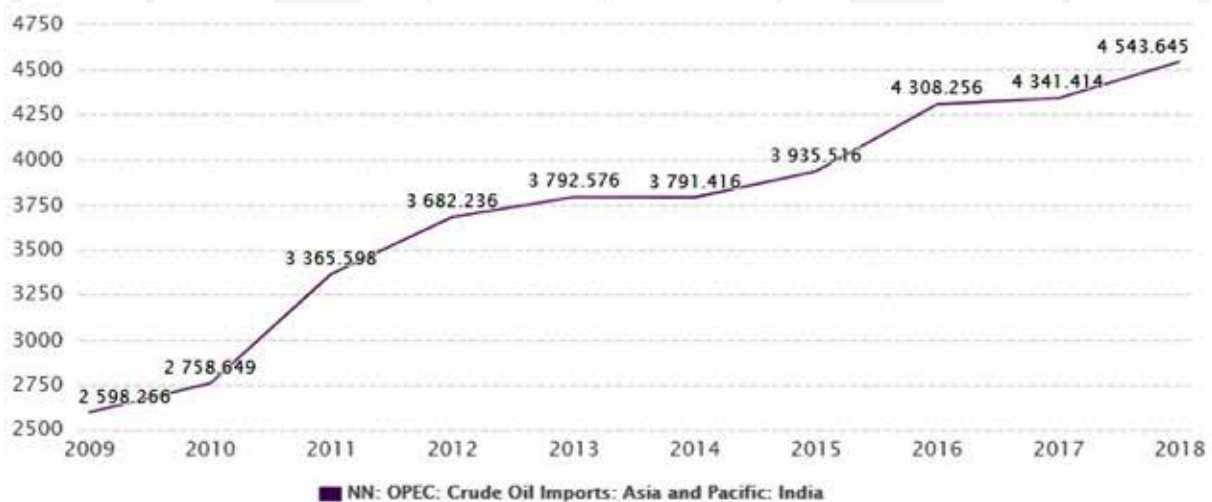
The Gulf Wars I and II were also instances where the developing world started to realise the imbalances caused in pricing and affordability due to the geopolitical tensions in the Middle East. Since the late 1990s, there seem to be an increasing demand for oil from the Gulf region, especially in Asia with China and India emerging as major consumers.<sup>4</sup> However, over the last few years, given the volatile situation in the Middle East, India's consumption graph has been booming upwards (Figure 2) as the country's oil demand is expected to reach 6 million barrels per day (mb/d) in 2024 from 4.4 mb/d in 2017.<sup>5</sup>

### India's Oil Imports and Consumption

Oil, over the years, has become a strategic tool for the Gulf countries considering their revenues earned through exports and huge dependency from the developing world. It is cheap, clean and easy to transport. Concerning India, why is oil strategic? As mentioned earlier, India is one of the largest consumers of oil with approximately consuming 5156 barrels per day (bpd) in 2018 as well as in oil imports (constituting 20.67 per cent from total imports as in October 2019) and its allied products in the world with a rising decadal population. Moreover, the South Asian country's demand for oil imports (as mentioned earlier) has been increasing as it is all set to surpass China in the coming years to be the second most oil demanded centre after United States; approximately around 51 per cent of its oil requirements were met by the Middle Eastern nations which includes Saudi Arabia, Iraq, and UAE as of October 2019.<sup>6,7</sup>

**Figure 1: India's Crude Oil Imports (2009-2018)**

(barrels per day)



Source: CEIC Data, Greater London, England; <https://www.ceicdata.com/en/indicator/india/crude-oil-imports>.

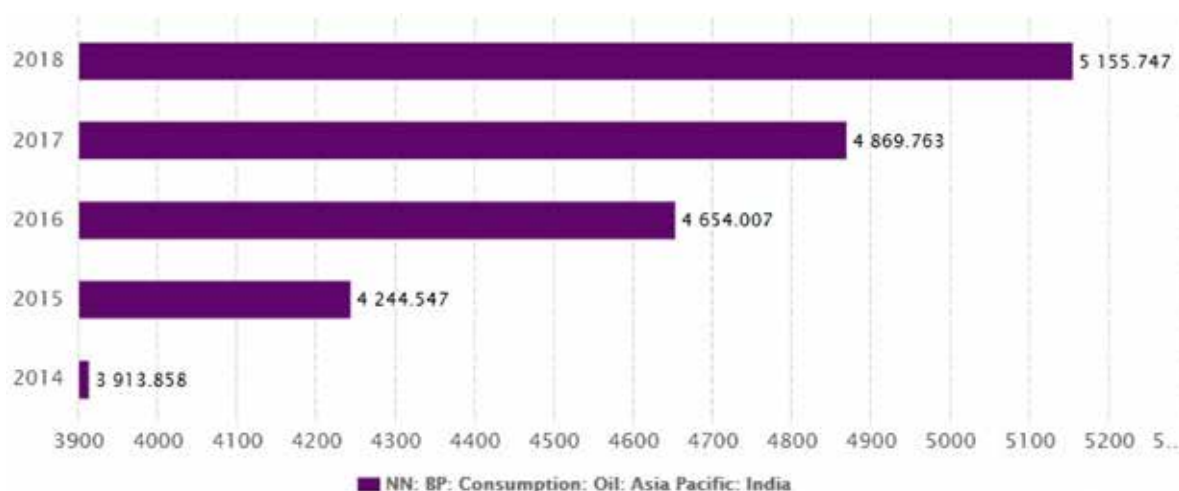
Figure 1 suggests that there is an increase in India's oil imports over the last decade amidst various sanctions and geopolitical tensions that influenced price fluctuations. The increasing population density and more purchasing power with the people have prompted them to purchase vehicles leading to immense increase in oil imports. Apart from this, diesel is used mostly for goods transportation and

agricultural operations especially in tractors, as India is primarily an agrarian economy. The South Asian economic giant's Gulf policy mainly resides on its bilateral oil imports with a huge dependency of oil transiting via the Strait of Hormuz. According to CEIC Data, India's total imports dropped by 12.7 per cent in year-on-year in November 2019.<sup>8</sup> This shows that the economy has been decelerating with India's growth

dropping than the previous year and largely even after overcoming the aftermath of the implementation

of Goods and Services Tax (GST) and demonetisation in 2018 reflecting a positive oil demand growth.<sup>9</sup>

**Figure 2: India's Oil Consumption 2014-18 (barrels per day)**



Source: CEIC Data, Greater London, England; <https://www.ceicdata.com/en/indicator/india/oil-consumption>.

Interestingly, it is observed that over the last five years there has been substantial increase in the consumption of oil in India (Figure 2). This indicates the inelastic demand of the commodity in the country even if there is a surge in the prices. In the recent years, India's outreach for oil imports has been slowly showing signs of purchasing the commodity from other parts of the world, namely, United States (US), Russia, Nigeria and Mexico apart from the traditionally reliant Gulf.<sup>10</sup> However, till date the dependency on the Gulf nations exceeds more than 80 per cent—mainly from Saudi Arabia, Iraq, Iran (until May 2019), UAE, etc. This outreach is just to maintain a buffer for its growing demand of the strategic commodity as the dynamic nature of the geo-political tensions are unpredictable in the Middle East in the current era.

### India's Energy Trade with Iran

Regarding energy trade, India's inclination towards its extended neighbourhood for meeting its day-to-day energy requirements was a necessity for decades; now the tide is shifting as it is crucial for the West Asian nations as well to export to India as a stabiliser for their business and trade economics. However, India's significant dependency from the region is apparent with its geographical periphery in place.<sup>11</sup> Notably,

over the years, Saudi Arabia, Iran and Iraq have been the top suppliers of oil to India.<sup>12</sup> As mentioned earlier, India's trade with Iran post-sanctions since 2015–16 was commendable until the latest set of sanctions on oil was declared by the United States on the Persian state in May 2019.

According to *Press Trust of India*, the South Asian giant purchased up to 2.5 billion tonnes at a point of time from Iran during early 2019.<sup>13</sup> Moreover, India had increased its imports from them since November 2018 when US had given a six-month extension before further sanctions. Trade proximity, quality and cost friendliness were more than enough reasons for India to import excess oil than previous years. As expected when the sanctions were placed in May 2019, Iran's export to India, which is by-large oil oriented, had a bad patch as oil trade fell from 2.5 billion tonnes to 1 million tonnes a month during the last month.<sup>14</sup> This is still a big amount considering India's oil trade from countries other than Iraq and Saudi Arabia. However, while analysing Table 1 (given below), the consistent increase in oil imports portrays the sustainability of oil trade that the two nations had since 2013. The tremendous increase of Iranian oil share in India's total oil imports from 4.72 per cent in 2013–14 to 7.37 per cent in 2018–19 (until May) is commendable.

**Table 1: India-Iran Energy Trade (in US\$ million)**

Year	Total Imports from Iran	Oil Imports from Iran	India's Total Oil Imports	Percent of Oil share (Iran) in India's Total Imports	Percent of Oil among Total Imports from Iran
2013-14	10,307.16	8,556.95	181,382.59	4.72	83.02
2014-15	8,955.02	7,292.13	156,400.01	4.66	81.43
2015-16	6,278.75	4,461.57	96,953.06	4.60	71.06
2016-17	10,506.51	9,006.29	103,163.20	8.73	85.73
2017-18	11,111.52	9,232.61	132,294.61	6.98	83.09
2018-19	13,525.64	12,369.07	167,871.87	7.37	91.45

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India, <https://dgft.gov.in/more/data-statistics/export-import-data-bank>.

From Iran's total exports to India, petroleum and crude oil peaked above 80 per cent in most of the years since 2013-14 except during 2015-16 when the sanctions were put on for some time. The year after the sanctions were pulled off, India's oil imports doubled in 2016-17 and the momentum kept flowing until the new sanctions were put on Iranian oil in May 2019. In 2018-19, among Iran's total exports to India, about 91 per cent was only crude oil (Table 1). Looking at the growth of the oil imports from Iran, according to the Directorate General of Foreign Trade, there has been a steady increase from –38 per cent in 2015-16 to 28.24 per cent in 2017-18 and approximately the same during 2018-19.<sup>15</sup> From the table it is visible that India followed a consistent record of importing oil from the Persian State, showcasing its interests as oil has been the major component in India's relations with Iran for decades. Moreover, India and Iran decided to use Rupee-Rial system through Asian Clearing Mechanism for their transactions since November 2018, which is yet to be fully implemented.<sup>16</sup>

Even though Iraq topped the list in supplying crude oil to India in terms of quantity – meeting more than one-fifth of the country's requirement during 2018-19 fiscal year, India's requirements are even met from other partners from the Gulf as well. In the last two years, India's major source of oil imports was from the region, led by Saudi Arabia, Iraq and Iran.

The US sanctions on Iranian oil compelled India to depend on other options, although the proximity and transactional system with the Persian State was economically favourable. Given the track record

that India maintains during embargoes, the country has respected the same with the Iranian sanctions as well, but the exemption of the development of the Chabahar port from the sanctions by the US would be a temporary relief. However, Chabahar port could be charted out as a future trade port between India and Iran given its strategic importance of geographical positioning and proximity to the Kandla port and Mumbai ports respectively.

### India's Dilemma with Iran

Since early 2000s, India had been growing steadily even touching a growth of 9 per cent by the end of that decade. In the process, India also started to revamp its strategic partnerships and bilateral relations. Among the lot, the New Delhi Declaration between India and Iran in 2003 is considered to be a decisive one where a consensus was recognised that energy security would be the core of the strategic partnership between the two nations. Along with this, another significant decision was that of the development of Chabahar port and the construction of road-rail connectivity to Afghanistan and Central Asia. Since then, Chabahar had been identified by India and Iran for its future projects for easy connectivity; however, it took more than a decade to start a trade consignment via this port, which is still under a primary stage of development.<sup>17</sup>

Interestingly, since 2016, Iran found itself in the top five suppliers of oil to India making it a significant partner in the recent times. However, the year 2019 witnessed a variety of events especially in the energy sector from Qatar exiting from OPEC, Iraq reaching new heights in oil production by reaching approximately five million



barrels per day (mbd), United States (US) imposing sanctions on Venezuela in February and later on Iran in May. Further, the latter half of the year was even more dramatic with geopolitical tensions in the Strait of Hormuz just after re-employment of Iranian sanctions; the drone attacks at the two oil-processing facilities of Saudi Aramco in September 2019—causing unsteady fluctuations in oil prices; and the most highlighted event at the end of the year was the killing of Major General Qassem Soleimani, the commander in chief of the Iranian Qud Forces in late December 2019 by the United States.<sup>18,19</sup> These issues not only led to an unusual hike of oil prices over the last quarter of the year as along with the OPEC+ supply cuts, making the region more vulnerable to economic instability and standalone attacks.<sup>20</sup>

The frequent meets between the two countries portray the cordial relations that both endorse. Iran has supported India's initiatives in the past and with a substantial Shia population in the latter, the cultural connection is vital as well. As of December 2018, the Indian Diaspora in Iran constitutes 4,473 Indians, including 80–100 Indian families residing at Tehran and 13–15 families at Zahedan; there are also around 2,800 Indians at Qom, Esfahan and Mashhad consisting of Indian students undergoing theological studies and their family members.<sup>21,22</sup> Moreover, it is in due respect that there is an understanding between the two nations on the sanctions and it is indeed motivating that Iran has shown interest in

India's projects, which can be mutually beneficial economically. Apart from this, Iran also showed interest in India to help in de-escalating tensions between US and Iran in the region.<sup>23</sup>

### Conclusion

In the light of various geopolitical events in the Persian Gulf, India—being part of the extended neighbourhood, has always been concerned by any developments in the region whether it was in the past or present. India's Iran policy rides on these factors—Energy, Chabahar Port and cultural heritage. However, there seems to be an understanding and cordial environment between the two nations since the re-imposition of sanctions as there has been frequent meets between the two foreign ministers, Javad Zarif of Iran and S. Jaishankar of India.<sup>24</sup> In fact, the positive side has been that of India's keen interest in development of Chabahar port. To an extent India's expectations would depend on the locus of the future economic trade on a mutual benefit basis which is already in place through currency swapping; may be an invitation for preserving Iranian oil through strategic reserves in India would benefit either sides in fostering their relationship. However, most importantly, the growing influence of China in the region and especially with Iran is a vital concern for India. Perhaps it is time that India oversees the need to keep its strategic partners intact with their mutual interests in the region.

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