

U.S. Sanctions waiver on India - II

Click [here](#) to know more on the issue.

\n\n

Why in news?

\n\n

U.S. decided to grant India and seven other countries waivers on the sanctions it re-imposed on Iran recently.

\n\n

Why there is a shift in U.S. stand?

\n\n

\n

- U.S. has agreed to waive sanctions on the purchase of oil from Iran for about six months.

\n

- Though the details of the waivers are yet to be released, it provides some temporary relief to India and avoids any major oil price shocks.

\n

- The waivers announced also cover Indian investment in Iran's Chabahar port and the plan to build a railway line from Chabahar to Afghanistan to facilitate trade.

\n

- India has committed \$500 million to the Chabahar project and \$2 billion to build a railway line from Chabahar to Hajigaj in Afghanistan.

\n

- Hence, U.S. has provided for an exception from the imposition of certain sanctions under the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA) with respect to the development of Chabahar Port and the railway line.

\n

- The IFCA was one of the laws under which sanctions on Iran were earlier imposed, with implications for non-US companies working with Iran in various sectors including shipping, shipbuilding, energy and insurance.

\n

- This is done at the backdrop of South Asia strategy of the U.S., which was focused on economic growth for Afghanistan and a “close partnership” with India.
\n
- U.S. also endorses the strategic importance of the Chabahar port in the reconstruction of war-torn Afghanistan.
\n
- Thus, U.S seeks to maintain a close relationship with both countries as they pursue a “policy of maximum pressure” against Iran.
\n
- However, the waivers indicate that despite all the harsh rhetoric on choking Iran, the U.S. may have had a rethink on its sanctions.
\n
- U.S. also considers the costs incurred in pushing around allies and partners such as India, Japan and South Korea to “zero out” oil purchases.
\n
- This conclusion stems from the fact that both India and China, Iran’s two biggest oil importers, have been extended waivers.
\n
- This flexibility could be a sign that the U.S. is leaving space for leeway in resuming talks with Iran in the long term.
\n

\n\n

How does a rupee-rial mechanism help in this regard?

\n\n

- However, the present waivers are **temporary** and contingent on further reductions in oil trade with Iran.
\n
- So, India will need to continue to find alternatives to its offtake from Iran.
\n
- Rupee-Rial mechanism of international trade was an initiative undertaken by both India and Iran in an attempt to supersede the resistance of UN sanctions imposed on Iran back in 2012.
\n
- Under this system, India and Iran did not trade in international currencies like USD and preferred to trade in Rupee through an UCO bank account.
\n
- Iran used to receive money in its UCO bank account and in turn Iran used this money to buy goods from India.
\n
- However, in 2015 when the sanctions were lifted this mechanism was

significantly reduced.

\n

- But after the re-introduction of sanctions by US, there are talks regarding its re-implementation.
- India has also started exploring a possibility of reviving a Rupee-Rial arrangement by allowing an Iranian Bank to set up in India.
- This will help India in continuing its oil supplies with Iran and make payment from the country.
- This system is a win-win situation for both the nations.
- Since Iran is able to sell its petroleum products (Iran is India's third largest supplier of oil) and India benefits from the increase in exports to Iran.
- However, the mechanism depends on increasing Iranian demand for Indian goods to balance India's annual purchases of about \$10 billion, which hasn't fructified yet.

\n

\n\n

What are the concerns?

\n\n

\n

- The European Union, Russia and China have also been working on a "special payment mechanism" to circumvent sanctions.
- But they have yet to launch it, thus limiting India's options.
- Moreover, despite the waivers, India will still face the impact of the U.S. sanctions as very few international companies may be willing to undertake contracts at the port.
- Above all, by seeking the waivers, instead of sticking to its earlier line that it accepted only UN sanctions and not "unilateral" sanctions, India has lost its moral leverage.
- Unlike China, it chose to reduce its oil intake from Iran, and entered into negotiations for alternative fuel supplies from Iran's rivals in the Gulf.
- This could impact Delhi-Tehran ties in the long run.

\n

- However, India will have to keep engaging the U.S. in order to secure further waivers, both in this case and for CAATSA-related U.S. sanctions on Iran, Russia and North Korea.

\n

- Thus, by securing the waiver the government has got temporary relief for the foreseeable future.

\n

\n\n

\n\n

Source: The Hindu

\n

