U.S. Ends Waiver for India on Iran Oil

Why in news?

It was recently announced that the U.S. would not renew exemptions for India from its sanctions for importing oil from Iran.

What was the exemption on?

- The US sanctions on Iran was in relation to the US withdrawing from the nuclear deal with Iran, the Joint Comprehensive Plan of Action (JCPOA). Click here to know more.
- The sanctions restrict sales of oil and petrochemical products from Iran, and led entities to end their deal with Iran's energy sector.
- But US had granted waivers, known as Significant Reduction Exceptions (SRE), last November for 6 months until May 2, 2019.
- It was offered to 8 countries - India, China, Japan, South Korea, Taiwan, Turkey, Italy and Greece.
- Nevertheless, the US insisted that these countries reduce oil imports from Iran to zero eventually, allowing only limited imports.

How crucial is oil import to India?

- India is currently the world's third-biggest oil consumer.
- It meets more than 80% of its crude oil requirements and around 40% of its natural gas needs through imports.
- Moreover, domestic oil and natural gas production has been declining for the last few years.
- But the energy needs of the economy have grown.

How dependent is India on Iranian oil?

- India is Iran's top oil buyer after China.
- Iran was the fourth largest supplier of oil to India in 2018-19 when India imported 23.5 million tonnes from Iran.
- Of India's total $128.7 billion import of Petroleum, Oil and Lubricants (POL), Iran accounted for close to 9%.

What are the implications of the US's move?

- The U.S. has made it clear that Indian companies that continue to import oil from Iran would face severe secondary sanctions.
- These include being taken out of the SWIFT international banking system and a freeze on dollar transactions and U.S. assets.

The possible implications for India include the following:

- any spike in global crude oil prices will widen the trade deficit and current account deficit, especially in the absence of the Iranian balancing factor
- rupee could be impacted if the trade and current account deficits were to widen
- an increase in the import bill will tend to put more pressure on the rupee
- on the revenue side, higher oil prices mean more revenue for the states as tax is ad valorem
- for the Centre, though, higher oil prices may not materially impact the fiscal math as the duty rates are fixed
- the expenditure impact would primarily be on account of fuel subsidy outlays
- there could be impact on inflation depending on crude price movement and government's decision on passing it on to the consumer

How prepared is India?

- The US move comes at a time when the price of the Indian crude basket has been rising.
- But India has said the country is “sufficiently prepared” to deal with the impact of the ending of the waiver.
- In the past several months, India has worked hard to significantly diversify its energy sources in preparation for this situation.
- Indian refiners have almost halved their Iranian oil purchases since November, when the sanctions came into effect.
- Indian refiners are increasing their planned purchases from the Organisation of the Petroleum Exporting Countries (OPEC).
- Purchases from Mexico and even the US are also being planned to make up for the loss of Iranian oil.
- E.g. India imported crude from the US for the first time two years ago; first US crude consignment reached Paradip in October, 2017
- Since October 2017, four PSUs have placed orders for 11.85 million barrels.
- Indian companies have also contracted 8mn metric tonnes per annum of liquified natural gas (LNG) and ethane condensate from the US.

What are the challenges ahead?

- There are other substitute crude suppliers for India including Saudi Arabia, Kuwait, Iraq, Nigeria and the US.
- But the concern is that they do not offer the attractive options that Iran does, including 60-day credit, and free insurance and shipping.
- So the challenge now is to secure an alternative supplier at competitive terms in an already tightening global situation.
- The projected drop in Iranian exports could further squeeze supply in a tight market.
- This is added by the fact that the US has also sanctioned Venezuela.
- Also, the OPEC and allied producers including Russia have voluntarily cut output.
- All these have pushed up oil prices more than 35% this year.
- **Iran** - India and China could show a degree of defiance while cutting back on their exposure to Iranian crude.
- But India’s ties with Iran are significant and historic, and New Delhi will work hard to maintain some links.
- So estimatedly, India may maintain around 100,000 bpd (barrels per day) of Iranian imports paid for using a rupee payment system.

What is Iran's response?

- Soon after the US announcement, Iran threatened to close the Strait of Hormuz.
- It is a neck of water between Iran's southern coast and the northern tip of the sultanate of Oman.
- The Strait of Hormuz is the lane through which a third of the world’s seaborne oil passes every day.

[The seven choke points in the map above are critical nodes of the world’s energy security grid.]

- However, Iran cannot legally close the waterway unilaterally because part of it is in Oman’s territorial waters.
- But ships pass through Iranian waters, which Iran’s Islamic Revolutionary Guards Navy controls.
- Massive stakes give Iran leverage here, but closing the Hormuz Strait may lead to serious consequences.
- Notably, the US too has said that closing the Hormuz Strait would amount to crossing a “red line”.
- This is one reason why Iran has not acted on its threats to close the Strait in 40 years of its hostility with the West.

Source: Indian Express, The Hindu

