U.S. Sanctions waiver on India

Why in news?

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The US has broadly agreed to grant India a waiver from its Iran sanctions recently.

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Why did the US withdraw from the Iran deal?

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- The JCPOA, known commonly as the Iran nuclear deal was a preliminary framework agreement reached in 2015 between the Islamic Republic of Iran and a group of world powers. (P5+1)
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- The U.S. withdrew from the multilateral deal, known as the Joint Comprehensive Plan of Action (JCPOA), citing a security threat.
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- It has reimposed sanctions on Iran that it lifted just two years ago.
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- This was intended to restrain Iran's behaviour beyond nuclear controls and to choke the Islamic Republic's biggest source of income and pressure it to renegotiate a new nuclear deal.
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- U.S. has laid out conditions Iran must meet to ease sanctions, including ending destabilizing actions in the region, such as its support for Houthi rebels in Yemen and Hezbollah.
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- However, Iran regard these demands as tantamount to seeking regime change in the country.
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- Hence the US decided to withdraw from the JCPOA, reinstating two sets of sanctions, wherein the first includes restrictions on -
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1. Iran’s purchase of U.S. currency
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2. Iran’s trade in gold and other precious metals and
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3. The sale to Iran of auto parts, commercial passenger aircraft, and related parts and services.
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- The second set of sanctions, which comes back into force on November 4, restricts sales of oil and petrochemical products from Iran.
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- Thus any country, or company, trading with Iran without US consent after sanctions kick off risks getting cut off from the American financial system.
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What are the resultant effects?

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- The U.S. moves have contributed to a run on the rial and triple-digit inflation as Iranians scramble for the safety of U.S. dollars and gold.
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- U.S. has so far rejected requests by foreign governments and companies that would allow them to continue to conduct business with Iran.
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- European signatories of the JCPOA are reported to be preparing a package of economic measures to try to salvage the deal.
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- The European Union also proposes a law to protect EU companies doing legitimate business with Iran from the impact of US extra-territorial sanctions.
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- Despite this, if other parties to the JCPOA are unable to continue their revived business with Iran, Iranian leaders are expected to walk away from the deal.
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Why India demanded for a waiver?

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- For India, the impact of the American sanctions plan would be manifold, regardless of the waiver.
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- India prefers Iranian oil as it comes cheap and suits many refineries' technical configuration.
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- Given that Iran is India's third largest supplier, there are not only rising costs of oil to contend with, but also the added cost of having to recalibrate Indian fuel refineries that are used to process Iran's special crude.
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- The second impact would be on India's investment in the Chabahar port, which would face both direct and indirect sanctions as shippers, port suppliers and trading companies refuse to participate in the project.
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- Hence India and other key importing countries have been engaged for months requesting US for a sanction waiver.
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- The US on its part insisted that it wanted everyone to reduce oil imports from Iran to zero eventually, but was open to country-specific waivers that would allow limited imports by those pledging 'significant' cut.
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- Hence the recent U.S. statement says that eight countries would be exempted from the waivers which are believed to be US allies like India, Japan, Italy, and South Korea.
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What are the takeaways?

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- The waiver dampens fears about a shortage of supplies and sending crude prices to their lowest levels in three months.
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- It would allow Indian oil companies to continue to import about 1.25 million tonnes of oil a month till March from Tehran.
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- India and the US have broadly agreed on a waiver, wherein India will cut import from Iran by one-thirds of its volume.
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- India had imported about 22 million tonnes of crude oil from Iran in 2017-18 and planned to raise that to about 30 million tonnes in 2018-19.
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- But, as a condition of waiver, Indian oil firms will reduce their imports significantly.
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- The waiver comes as a big relief to Indian Oil and MRPL, the two largest Iranian oil consumers.
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- However, the US sanctions have already driven away Indian and international shippers and insurers from extending their services for Iranian oil imports.
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- Refineries using Iranian oil have also faced insurance issues during renewals in recent months.
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- Also, the U.S. has said that it is only issuing **temporary waivers**, and the waivers are strictly linked to the condition that countries receiving them keep cutting down their purchases from Iran.
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- Along with the JCPOA-linked sanctions, India continues to face sanctions linked to the CAATSA, which puts more strictures on dealings with Iran, Russia and North Korea.
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- Thus the waiver is therefore no magic wand to be wished for, as it only pushes the problems for India down the road.
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Source: The Hindu, Economic Timesa

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