

U.S. Sanctions waiver on India - II

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Why in news?

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

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

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

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- 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.

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- 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.

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

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- 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.

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- 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.

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- 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.
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- U.S. also endorses the strategic importance of the Chabahar port in the reconstruction of war-torn Afghanistan.
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- Thus, U.S seeks to maintain a close relationship with both countries as they pursue a “policy of maximum pressure” against Iran.
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- However, the waivers indicate that despite all the harsh rhetoric on choking Iran, the U.S. may have had a rethink on its sanctions.
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- 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.
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- This conclusion stems from the fact that both India and China, Iran’s two biggest oil importers, have been extended waivers.
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- This flexibility could be a sign that the U.S. is leaving space for leeway in resuming talks with Iran in the long term.
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How does a rupee-rial mechanism help in this regard?

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- However, the present waivers are **temporary** and contingent on further reductions in oil trade with Iran.
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- So, India will need to continue to find alternatives to its offtake from Iran.
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- 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.
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- 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.
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- Iran used to receive money in its UCO bank account and in turn Iran used this money to buy goods from India.
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- However, in 2015 when the sanctions were lifted this mechanism was

significantly reduced.

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- But after the re-introduction of sanctions by US, there are talks regarding its re-implementation.
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- India has also started exploring a possibility of reviving a Rupee-Rial arrangement by allowing an Iranian Bank to set up in India.
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- This will help India in continuing its oil supplies with Iran and make payment from the country.
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- This system is a win-win situation for both the nations.
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- 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.
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- 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.

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What are the concerns?

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- The European Union, Russia and China have also been working on a "special payment mechanism" to circumvent sanctions.
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- But they have yet to launch it, thus limiting India's options.
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- 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.
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- 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.
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- 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.
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- This could impact Delhi-Tehran ties in the long run.

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- 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.

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

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Source: The Hindu

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